

LSL Property Services/Acadametrics
Wales

House Price Index

JULY 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 26TH SEPTEMBER 2012



First-time buyer activity increases 11% as market shows signs of recovery

- First time buyer numbers up 11% between Q1 and Q2
- House prices are up £1,513 on last year

House Price	Index	Monthly Change %	Annual Change %
£151,365	234.8	-0.6	1.0

Nigel Favas, Managing Director of Reeds Rains estate agents, who has branches in Wales comments: “Life has become markedly easier for Welsh first time buyers in 2012, but particularly so over the last couple of months. More new buyers have been able to access mortgage finance, which has jumpstarted the lower end of the market. It’s in stark contrast to England, where first-timer numbers have actually fallen since the end of March. Welsh buyers do have an advantage because first time buyer property in Wales is cheaper than elsewhere in the UK, meaning the deposits required aren’t quite as large. Two thirds of all first time buyer purchases in July were for properties worth under £125,000.

“First time buyers are the lifeblood of any housing market. The long term recovery of house prices is tied inextricably to how well new buyers fare. The fact that life is becoming marginally easier for them certainly bodes well for the future. But we shouldn’t get carried away just yet. Until the coalition cooks up a successful recipe for growth, house prices will remain broadly flat. It’s a similar story to the English and Scottish markets: all are hamstrung by a weak economy.

“Welsh house sales are still only 48% of what they were in the first half of 2007. And when the economy flounders, lenders toughen criteria on high loan-to-value mortgages and focus on protecting their balance sheets. That’s why equity-rich home buyers continue to represent a larger share of sales than they would in a healthy market. Areas such as Vale of Glamorgan, where there are more affluent buyers, have seen the biggest rise in house prices because of the higher demand for property. But on the flip side, less affluent areas have seen prices fall because it is harder for lower income buyers to access mortgage finance, which has reduced demand and dragged down prices.

“The fortunes of the market over the rest of 2012 will depend heavily on the government’s Funding for Lending scheme, which aims to provide banks with cheaper funds and, therefore, with more high loan-to-value mortgages. Banks and mutuals are already reporting that the scheme has encouraged them to up their lending targets for the next six months.”

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 August 2011 - July 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
August	2011	£151,751	235.4	1.2	-2.6
September	2011	£152,076	235.9	0.2	-2.4
October	2011	£155,036	240.5	1.9	0.1
November	2011	£154,573	239.8	-0.3	0.9
December	2011	£153,638	238.3	-0.6	1.1
January	2012	£152,056	235.9	-1.0	0.0
February	2012	£152,291	236.2	0.2	-0.4
March	2012	£153,385	237.9	0.7	0.5
April	2012	£153,684	238.4	0.2	2.0
May	2012	£152,992	237.3	-0.5	2.8
June	2012	£152,258	236.2	-0.5	2.2
July	2012	£151,365	234.8	-0.6	1.0

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Further commentary by Dr Peter Williams

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

The average house price in Wales was £900 lower in July than in June; a fall of 0.6% over the month. This is the third month in succession in which prices have fallen by 0.5% or more. Over the last 12 months, there have been 6 months in which prices have risen and 6 months in which prices have fallen. Overall, the monthly price rises have been greater than the falls. Hence, on an annual basis, prices have risen by 1.0%. Figure 1 below illustrates the movement in average house prices over the year. As can be seen, prices tracked upwards until October 2011 but have been mostly falling since then. An interesting question is whether prices will strengthen during the autumn months of 2012, as happened in 2011, or whether the recent monthly downturns will continue into the winter months?

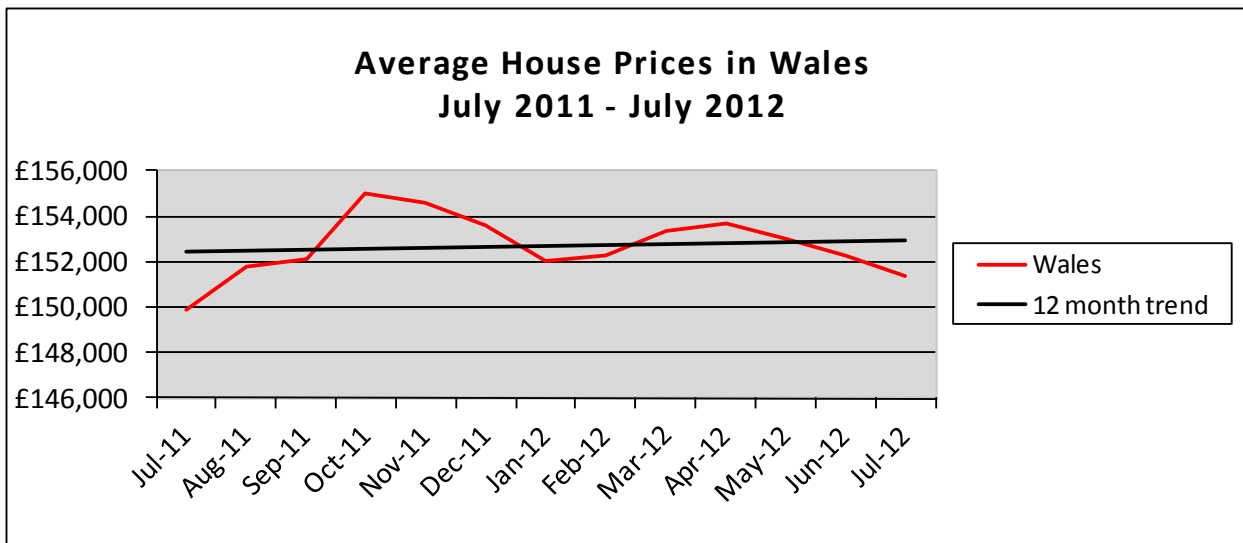


Figure 1. Average house prices in Wales, July 2011 – July 2012

[link to source Excel](#)

As we discuss on page 5, the number of transactions in July was below expectations, in part due to the additional Bank Holiday and in part due to the exceptionally high levels of rainfall, both of which occurred during the preceding month. Over the first seven months of 2012 transactions are up 2% on 2011 levels.

The CML reports that activity in Wales in the first time buyer sector of the market has increased by 11% during the second quarter of 2012, when compared to the first quarter of 2012, but remained steady compared to the second quarter of 2011. The second quarter of 2012 also saw a rise in the percentage of first time buyers in Wales purchasing homes under £125,000. 67% of first time buyers bought property costing less than £125,000 in the second quarter of 2012, up from 63% in the first quarter and 62% in the same period of last year. Readers may recall that the tax holiday on stamp duty for first time buyers on the purchase of properties costing in excess of £125,000 came to an end on 24th March 2012. The rise in the numbers of such buyers purchasing properties below this price after the tax concession was withdrawn does not therefore come as a surprise. This behaviour pattern does however help to explain the fall in the average purchase price of flats compared to last year as observed in areas such as Cardiff, Conwy and Swansea.

What prospects do we foresee for the remainder of the year? Although the government has announced a number of house building initiatives to help kick start the economy, these activities will not have much influence on the housing market over the next five months. The main factors which are currently affecting the market are the difficulties in obtaining mortgage finance, with the lenders looking for high deposit levels and sound credit ratings, and the uncertainties of the current economic climate, which are not conducive to building consumer confidence. These factors account for the current historically low level of housing transactions which, in the first seven months of 2012, are still some 52% down on the level of transactions seen in the first seven months of 2007, despite the 2% pick-up in sales compared to last year. Given that we do not anticipate significant change in the banks and building societies lending requirements, we can only conclude that the housing market will continue to operate at half speed, with little change in house price behaviour from the first half of this year.



Table 2. The average house price in Wales, by unitary authority area, July 2011 and July 2012

[link to source Excel](#)

AVERAGE HOUSE PRICES IN WALES BY UNITARY AUTHORITY AREAS (Mix adjusted)

RANK BY PRICE PRIOR YR	RANK BY PRICE	LOCAL AUTHORITY AREA	Jul-11	Jul-12	% Change
2	1	THE VALE OF GLAMORGAN	192,167	220,472	14.7%
1	2	MONMOUTHSHIRE	220,504	218,924	-0.7%
3	3	CEREDIGION	179,858	193,471	7.6%
4	4	CARDIFF	178,569	180,423	1.0%
5	5	PEMBROKESHIRE	168,769	176,447	4.5%
6	6	POWYS	167,039	171,984	3.0%
7	7	CONWY	164,282	161,600	-1.6%
8	8	ISLE OF ANGLESEY	156,933	156,479	-0.3%
11	9	FLINTSHIRE	148,374	152,827	3.0%
9	10	WREXHAM	154,557	152,717	-1.2%
10	11	GWYNEDD	151,239	151,764	0.3%
14	12	NEWPORT	143,449	149,658	4.3%
12	13	SWANSEA	145,877	147,060	0.8%
16	14	DENBIGHSHIRE	138,146	135,326	-2.0%
13	15	CARMARTHENSHIRE	144,010	133,544	-7.3%
15	16	BRIDGEND	138,201	132,720	-4.0%
17	17	TORFAEN	128,280	125,746	-2.0%
18	18	CAERPHILLY	123,312	118,926	-3.6%
19	19	NEATH PORT TALBOT	108,992	108,502	-0.4%
20	20	RHONDDA CYNON TAFF	103,418	101,430	-1.9%
21	21	MERTHYR TYDFIL	96,383	97,576	1.2%
22	22	BLAENAU GWENT	87,180	83,809	-3.9%
		WALES	149,879	151,365	1.0%

Table 2 shows the average price of a house in the 22 unitary authority areas in Wales for both July 2011 and July 2012. As can be seen, although the headline rate of annual change for the Principality, as a whole, shows a 1.0% rise, there are many differences at the more local level. For the third month in succession, the largest rise in house prices has been in The Vale of Glamorgan, up 14.7%, followed this month by Ceredigion, up 7.6%, while the biggest faller is Carmarthenshire, down -7.3%. This month, there are 12 unitary authority areas experiencing a decline in average house prices over the year, three more than last month.

Comparing transactions over the three months May - July 2012 with the same period, twelve months earlier, we find that sales have increased by 2%, with sales of detached properties up 8%, flats up 3%, with no change in terraced properties, while semi-detached sales have fallen by 3%. Comparing the second quarter of 2012 with the first quarter of 2012, transactions have increased by 14% whereas, on average, one can anticipate a seasonal increase of 26% over this period. However, one needs to recall that March 2012 saw a higher than average number of transactions in Wales as first time buyers sought to take advantage of the tax holiday on properties costing in excess of £125,000, which concession was withdrawn on 24th March 2012. This meant that the first quarter of 2012 had more sales than usual, with the seasonal increase in sales during the second quarter of the year thus being less prominent.

The CML reports that first time buyer activity in Wales increased by 11% between the first quarter and second quarter of 2012, with first-time buyers representing 28% to 29% of the overall housing market. This figure contrasts with first time buyers representing an average 40% of the overall housing market prior to the credit crunch of 2007/08.

Our interest in first time buyers is that they provide the base from which housing chains can function. First time sellers, almost by definition, rely on the existence of first time buyers and so on up the housing ladder. Without them, the number of housing transactions can reduce to a trickle, as is partly evident in today's market. As previously reported, one of the main drivers of today's market, in the absence of first time buyers, are the 'downsizers'; those who have large family homes who, when the children leave the nest, reduce the size of their estate and thereby generate capital. These family homes are bought by those with considerable equity in an existing property, who can therefore find the required deposit and take advantage of the low rates of interest currently on offer. This is one of the reasons why the Vale of Glamorgan currently tops the price growth list, as most transactions taking place there are for high value properties.

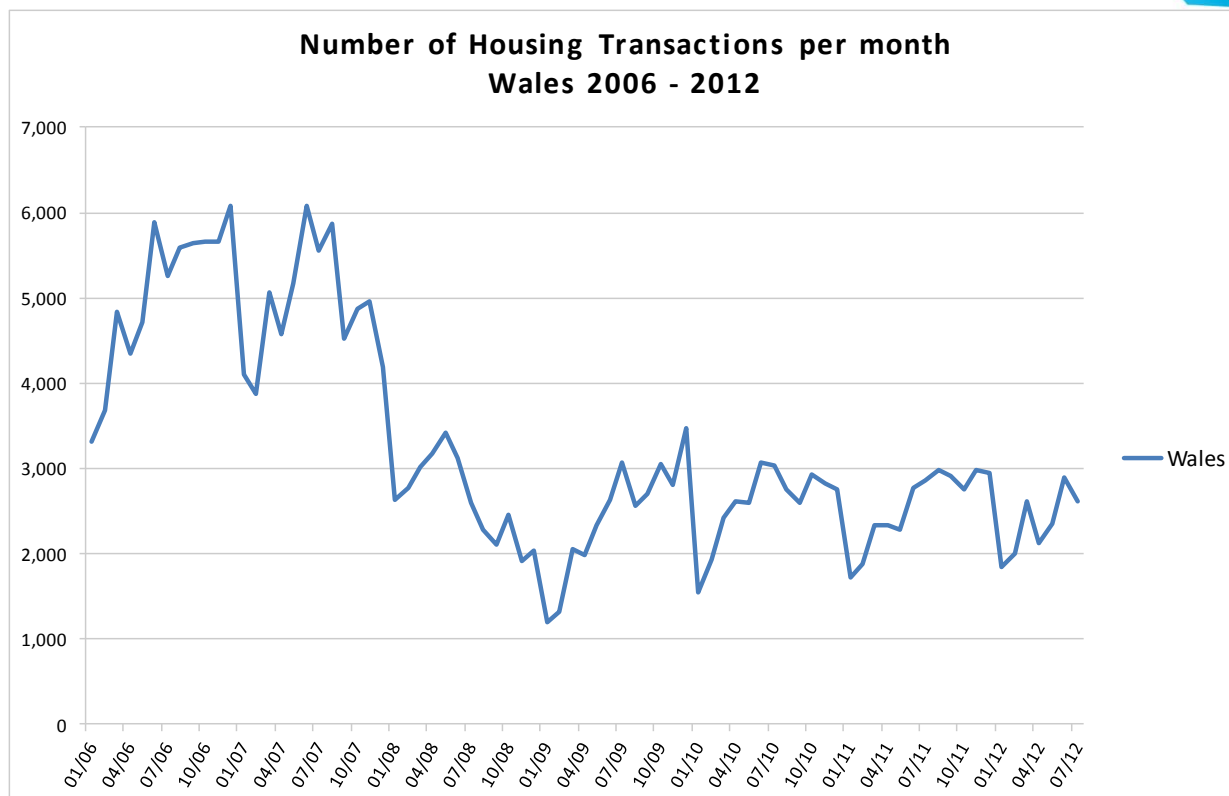


Figure 2. The number of housing transactions by month in Wales, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

The above graph shows the number of monthly transactions in Wales recorded by the Land Registry for the period January 2006 to July 2012, without seasonal adjustment. Traditionally, sales in Wales in July are 2% higher than in June. However, this year we estimate that sales have decreased by some 10% in July over June. There are two main reasons why sales fell in July, but before discussing these we must first remind readers of the timing issues involved in recording a sale. Our housing transaction numbers are taken from the date of completion on the sale of a property. The completion date will usually be at least one month after a buyer has made an offer on a home, so our figures for July will reflect buyer activity in June, with June figures reflecting activity in May and so on. This year's subdued figures for July can therefore be partly ascribed to the Queen's Jubilee and the associated additional Bank Holiday which occurred in June, plus record levels of rainfall, with the Met Office confirming that it was the wettest June in Wales since its data series began in 1910. With slightly improved weather in July and no bank holiday distractions it will be interesting to discover the number of houses transacted in August, in what is historically for Wales the second busiest month of the year.

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

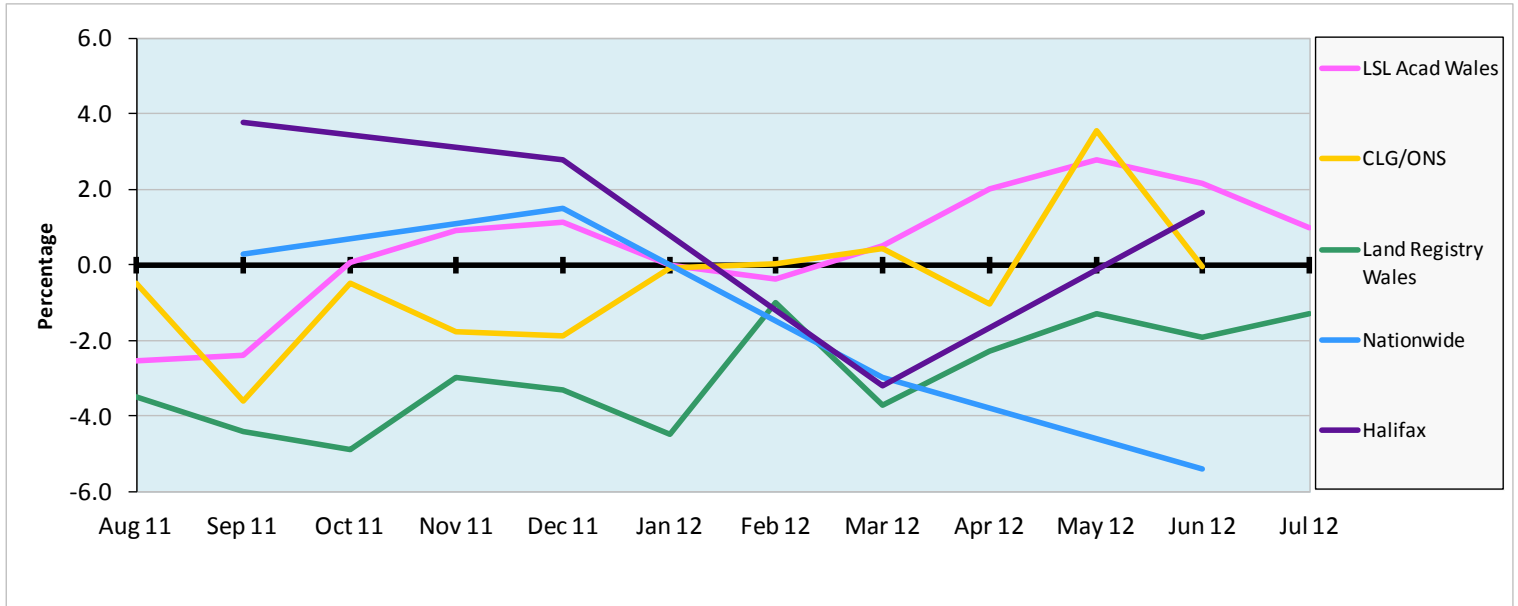


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES

[link to source Excel](#)

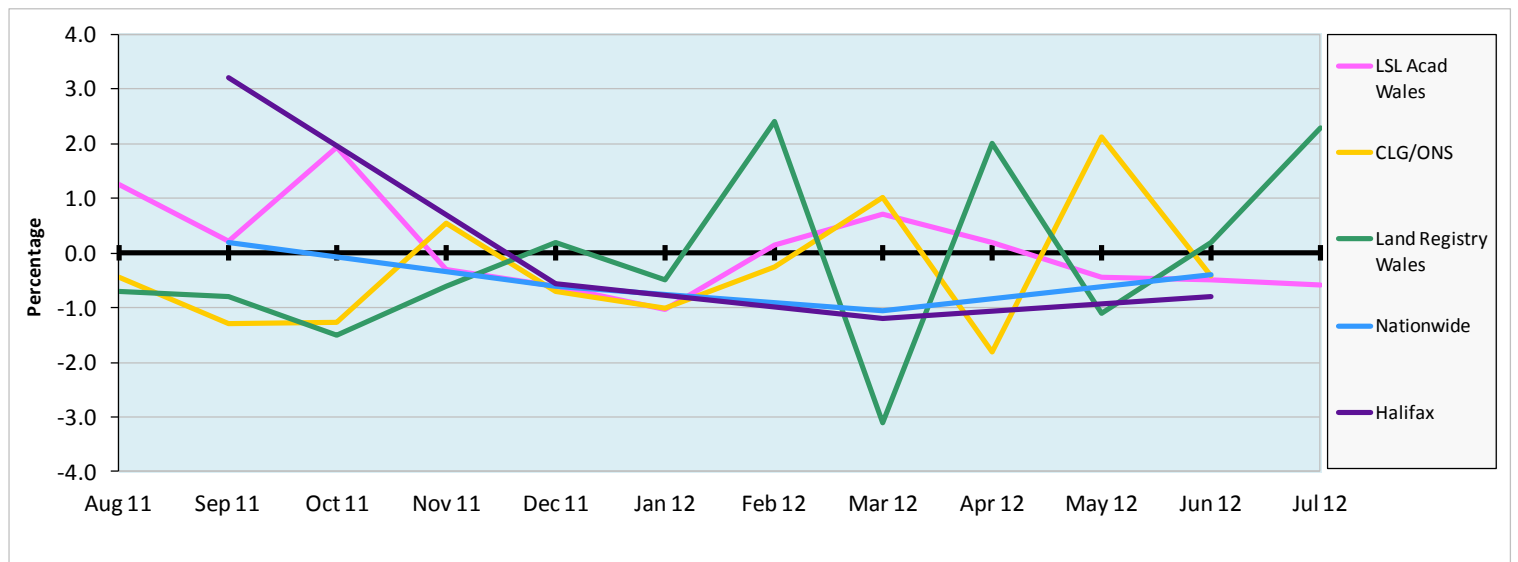


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES

[link to source Excel](#)

The above charts compare the main indices published 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.

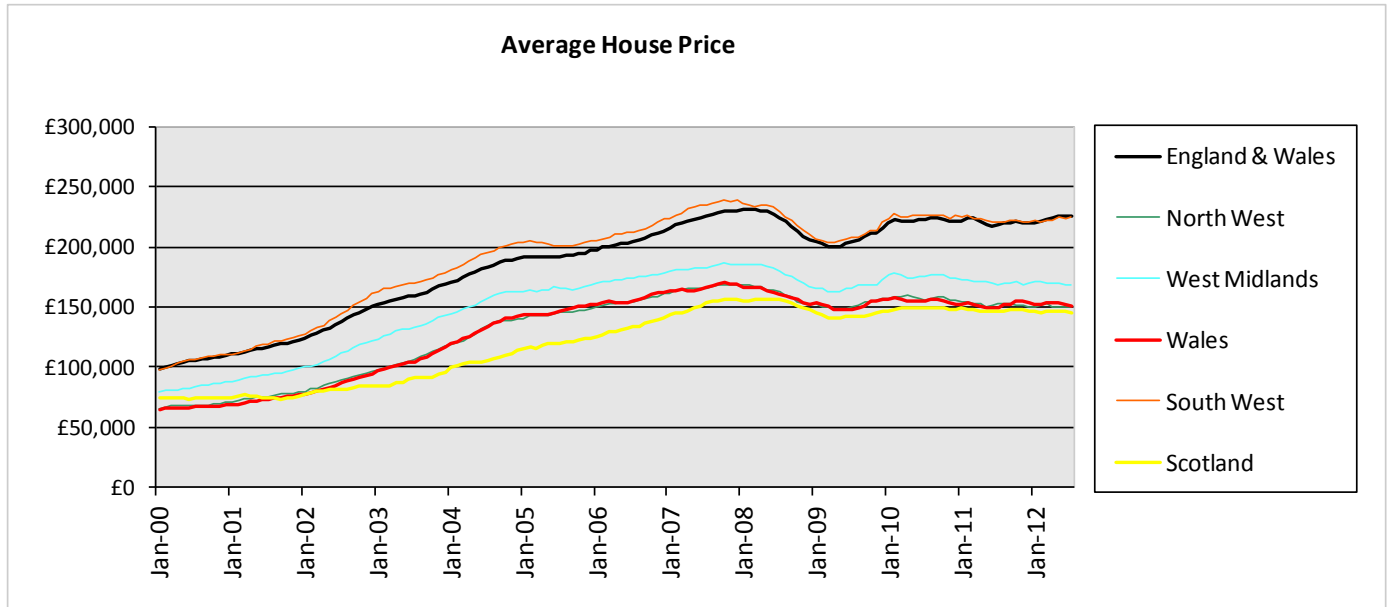


Figure 5. Wales house prices, compared with England & Wales, Scotland and regions bordering Wales for the period Jan 2000 - Jul 2012 [link to source Excel](#)

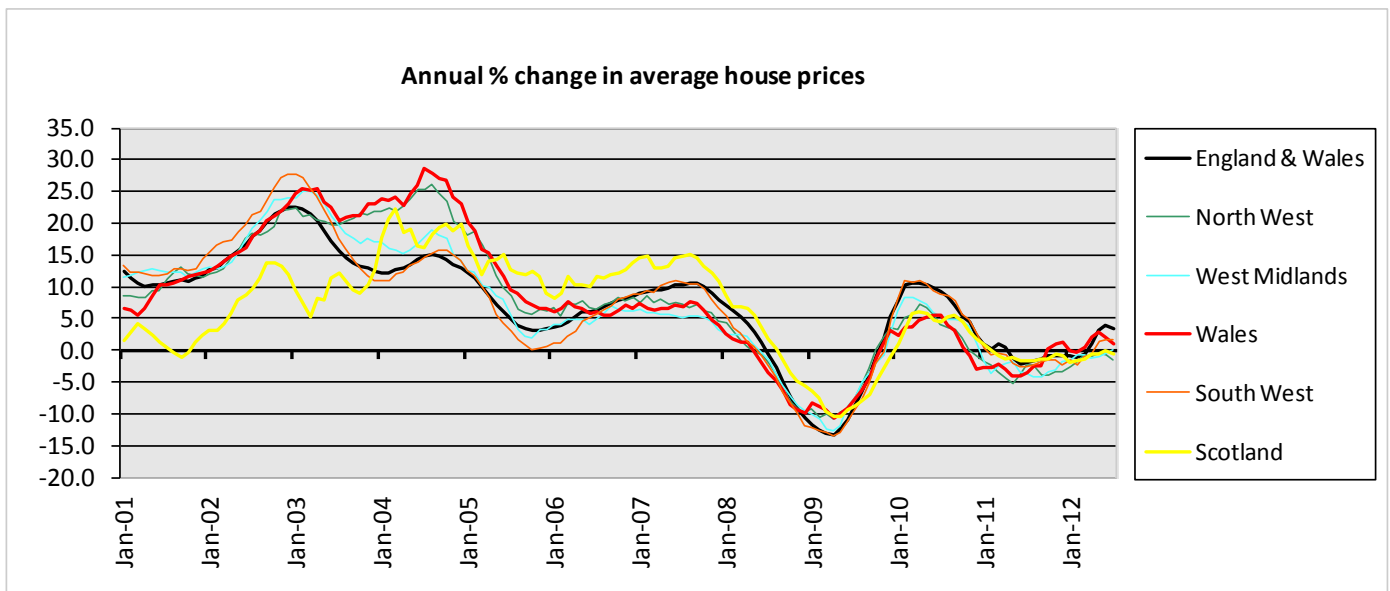


Figure 6. A comparison of the annual change in house prices in Wales, England & Wales, Scotland and regions bordering Wales for the period Jan 2001 - Jul 2012 [link to source Excel](#)

Nine unitary authorities in Wales

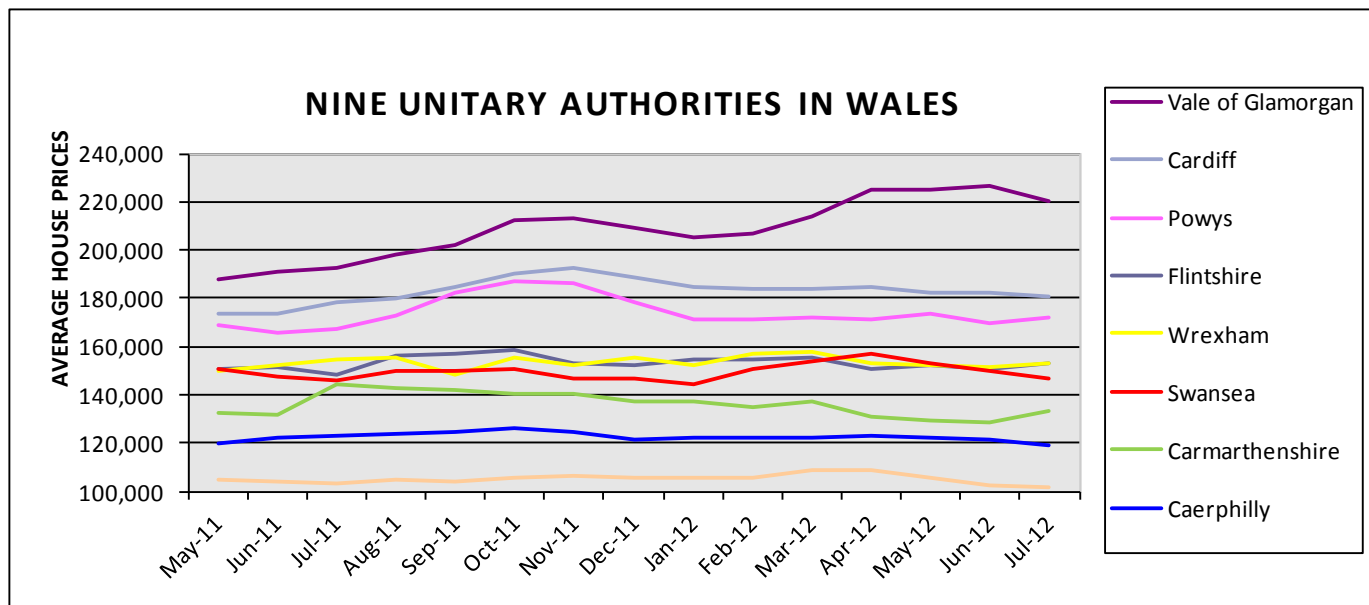


Figure 7. Average house prices for nine unitary authorities in Wales from May 2011 - July 2012

[link to source Excel](#)

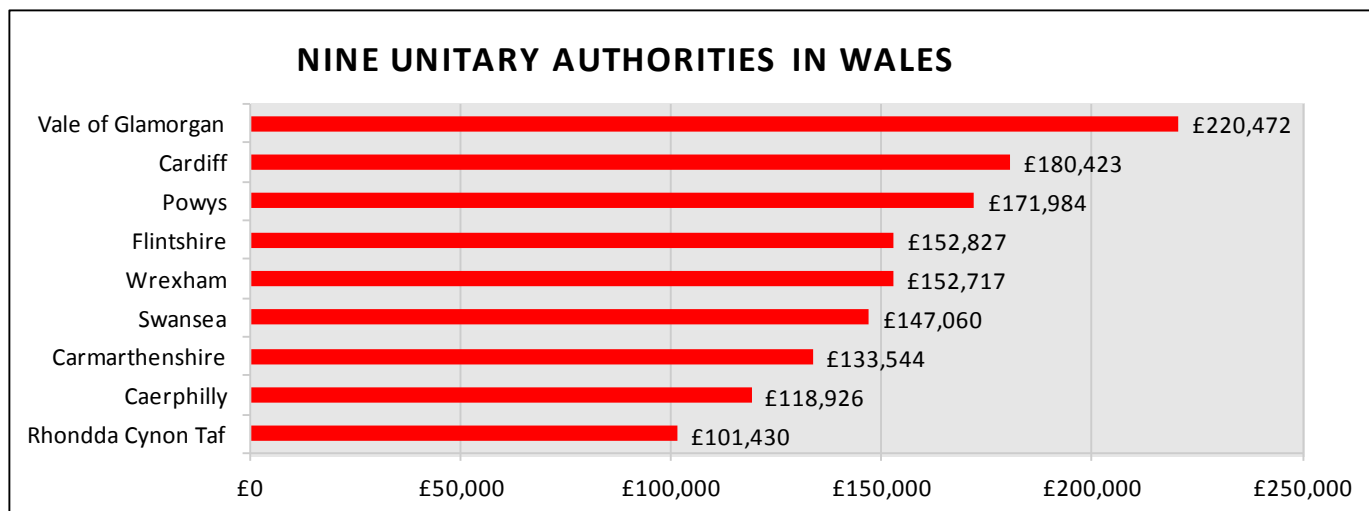


Figure 8. Average house prices for nine unitary authorities in Wales July 2012

[link to source Excel](#)



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 CLG/ONS HPI, 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 (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 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 Wales 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/ONS 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.

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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