

LSL Property Services/Acadametrics
Wales

House Price Index

MAY 2012

STRICTLY UNDER EMBARGO UNTIL 00.01 WEDNESDAY 25TH JULY 2012



Welsh house prices rise £3,500 as market soldiers on

- Prices up 2.4% on last year
- Two-tier housing market emerges, with prices supported by activity from wealthier buyers

House Price	Index	Monthly Change %	Annual Change %
£152,448	236.5	-0.3	2.4

Nigel Favas, Managing Director of Reeds Rains estate agents, who has branches in Wales comments: “Given how difficult it is to get a mortgage at the moment, an annual rise in prices of 2.4% is a real victory for the housing market. Lower house prices in Wales have made it comparatively easier for first time buyers to get on the housing ladder than in England.

“Predominantly, though, it is wealthier buyers and equity-rich retirees who are sustaining sales-levels, which has helped nudge up prices. It’s created a two tier market where prices tend to vary regionally depending on the number of wealthier buyers. Prices have held up well, and even seen significant increases, in areas with plenty of wealthier buyers, but have fallen in areas with more first time buyers. The main stumbling block to a fluid housing market is a chronic lack of mortgage finance. It is marooning first time buyers in the rental market, which keeps sales levels suppressed and stops house prices growing.

“To put things in perspective, sales levels are still only half what they were in 2006. Lending criteria are becoming tighter, with banks more concerned about protecting their balance sheets, and they are reducing lending to buyers with small deposits, which will hit first time buyers disproportionately hard. The best the market can hope for over the next few months is to stagger on. On average, banks require deposits to be twice as large as they were before the 2008 financial crisis. Wales is also more exposed to public sector austerity than the UK as a whole. Houses prices at a local level will be closely tied to the performance of their immediate economies. With unemployment set to rise further, house price growth could prove elusive.”

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 June 2011 - May 2012

[link to source Excel](#)

		House Price	Index	Monthly Change %	Annual Change %
June	2011	£149,035	231.2	0.1	-4.2
July	2011	£149,870	232.5	0.6	-3.5
August	2011	£151,743	235.4	1.2	-2.6
September	2011	£152,091	235.9	0.2	-2.4
October	2011	£155,070	240.5	2.0	0.1
November	2011	£154,594	239.8	-0.3	0.9
December	2011	£153,644	238.3	-0.6	1.1
January	2012	£152,089	235.9	-1.0	0.0
February	2012	£152,251	236.2	0.1	-0.4
March	2012	£153,067	237.4	0.5	0.3
April	2012	£152,936	237.2	-0.1	1.5
May	2012	£152,448	236.5	-0.3	2.4

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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 £500 lower in May than in April; a fall of -0.3% over the month. However, on an annual basis, prices have risen by +2.4%. To understand why the annual figure has risen whilst the monthly figure is down, we need to look at what happened in the Welsh market during February, March and April of last year. The Chancellor had announced that stamp duty on properties costing £1 million or more was to increase by +1% from 6 April 2011. This resulted in buyers at the top end of the market bringing forward their purchases to the early months of 2011. Average prices in February in particular rose against trend by +0.5%. In April and May 2011, once the tax had been introduced, purchasers of high-priced properties became conspicuous by their absence, with a consequent fall in average house prices of -2.5% over the two months. By May 2012, the top end of the market had returned to more normal levels, so average prices have increased over the year, particularly when compared to May 2011.

Figure 1 below illustrates the movement in average house prices in Wales over the year. There has been a rise in prices of +2.4% overall, depicted by the upward slope of the trend line. As discussed above, the recovery in the market, especially from October to December 2011, resulted from the return of purchasers in the £1 million plus price bracket, which helped to raise average prices in the Principality over this period.

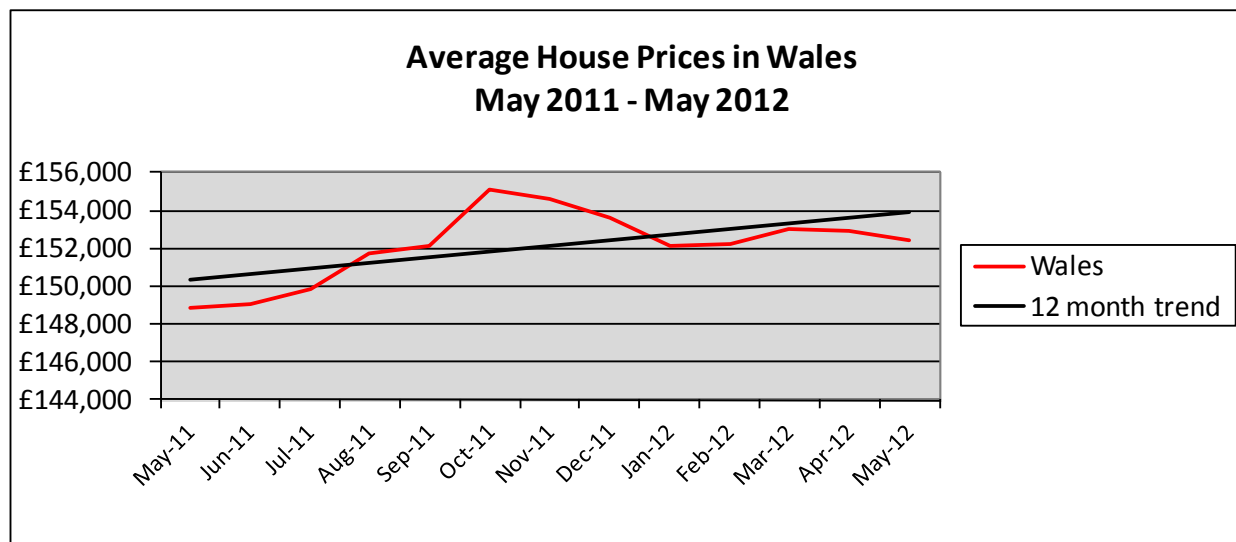


Figure 1. Average house prices in Wales, May 2011 – May 2012

[link to source Excel](#)

It is worth examining some of the underlying fundamentals of the current housing market. Transactions over the last twelve months, from June 2011 to May 2012, are half those seen from June 2006 to May 2007, with a fall from 62,500 properties sold in 2006/07 to 31,000 sold in 2011/12. The graph on Page 5 shows this decline. One of the main causes of the reduction has been the difficulty faced by aspiring buyers in finding mortgage finance, with increased deposits and tighter credit ratings being required by the lenders. A recent survey of renters wishing to become home-owners found that 75% of those considering applying for a mortgage had not done so. The main reason given for this 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 Wales.

The other main factor which has a negative impact on the market at the moment is consumer confidence. Whilst the economy remains unsettled and job losses continue, it is mainly those with existing equity in property who feel sufficiently comfortable to commit to buying. The recent report by the Centre for Economics and Business Research (CEBR) will not have helped to increase demand for properties. This suggested 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. Looking forward, we see a continuation of this subdued activity in the housing market, with buyers and sellers being mainly limited to those already owning properties, who are able to take advantage of the historically low interest rates currently on offer.



Table 2. The average house price in Wales, by unitary authority area, May 2011 and May 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	May-11	May-12	% Change
2	1	THE VALE OF GLAMORGAN	188,030	222,134	18.1%
1	2	MONMOUTHSHIRE	219,413	219,015	-0.2%
3	3	CEREDIGION	187,578	189,345	0.9%
4	4	CARDIFF	173,732	182,841	5.2%
5	5	PEMBROKESHIRE	172,837	175,759	1.7%
6	6	POWYS	168,746	170,857	1.3%
7	7	CONWY	158,067	159,857	1.1%
8	8	ISLE OF ANGLESEY	157,636	154,690	-1.9%
11	9	SWANSEA	150,538	154,634	2.7%
9	10	GWYNEDD	155,079	154,023	-0.7%
10	11	FLINTSHIRE	150,778	150,369	-0.3%
12	12	WREXHAM	149,775	149,508	-0.2%
13	13	NEWPORT	145,440	146,034	0.4%
17	14	DENBIGHSHIRE	130,931	136,768	4.5%
14	15	BRIDGEND	137,146	134,457	-2.0%
15	16	TORFAEN	133,461	133,255	-0.2%
16	17	CARMARTHENSHIRE	132,250	128,512	-2.8%
18	18	CAERPHILLY	119,570	121,436	1.6%
19	19	NEATH PORT TALBOT	107,035	109,435	2.2%
20	20	RHONDDA CYNON TAFF	104,887	107,005	2.0%
21	21	MERTHYR TYDFIL	102,580	99,207	-3.3%
22	22	BLAENAU GWENT	90,632	82,862	-8.6%
		WALES	148,847	152,448	2.4%

Table 2 shows the average price of a house in the 22 unitary authority areas in Wales for both May 2011 and May 2012. As can be seen, although the headline rate of annual change for the Principality as a whole is a +2.4% rise, there are many differences at the more local level. The largest rise in house prices has been in the Vale of Glamorgan, up +18.1%, followed by neighbouring Cardiff, up +5.2%, with the biggest fall in Blaenau Gwent, down -8.6%.

This month, the Vale of Glamorgan has taken over the top spot as the area having the highest priced homes being bought in Wales. So why is The Vale of Glamorgan showing such a large annual rise in prices? Over the last year there has been a general trend towards more activity at the top end of the housing market than at the bottom. For those with the deposits currently required by lenders, interest rates are at an historic low, making housing more affordable. We have therefore seen a number of existing home owners trade-up, moving to larger sized family homes. At the same time there has been an increasing number of 'downsizers'; those currently living in large properties, where the children have left home, looking to release equity by selling their house and moving to a comfortable but smaller estate. In this way, activity is generated at the top end of the market. First time buyers on the other hand are continuing to have problems raising the required deposit levels, with a consequent fall-off in demand occurring at the lower end of the property scale.

The Vale of Glamorgan satisfies this demand in that over 50% of its housing stock is either detached or semi-detached, compared to, say, Blaenau Gwent, where there are only 30% of such properties. It is conveniently located near Cardiff, which is a large centre of employment. This, in turn, boosts the market in terms of consumer confidence and housing demand. But it also has to be said that chance plays a role in housing statistics. What happened here was that more high priced detached properties, those having an average value of £378,000, were sold in the month than occurred a year ago when the average price was £266,000. It was this that caused the significant rise in the average house price for the unitary authority. This will not necessarily reflect the increase one might expect to see on an individual property. However, over the long-term, these statistical anomalies even themselves out.

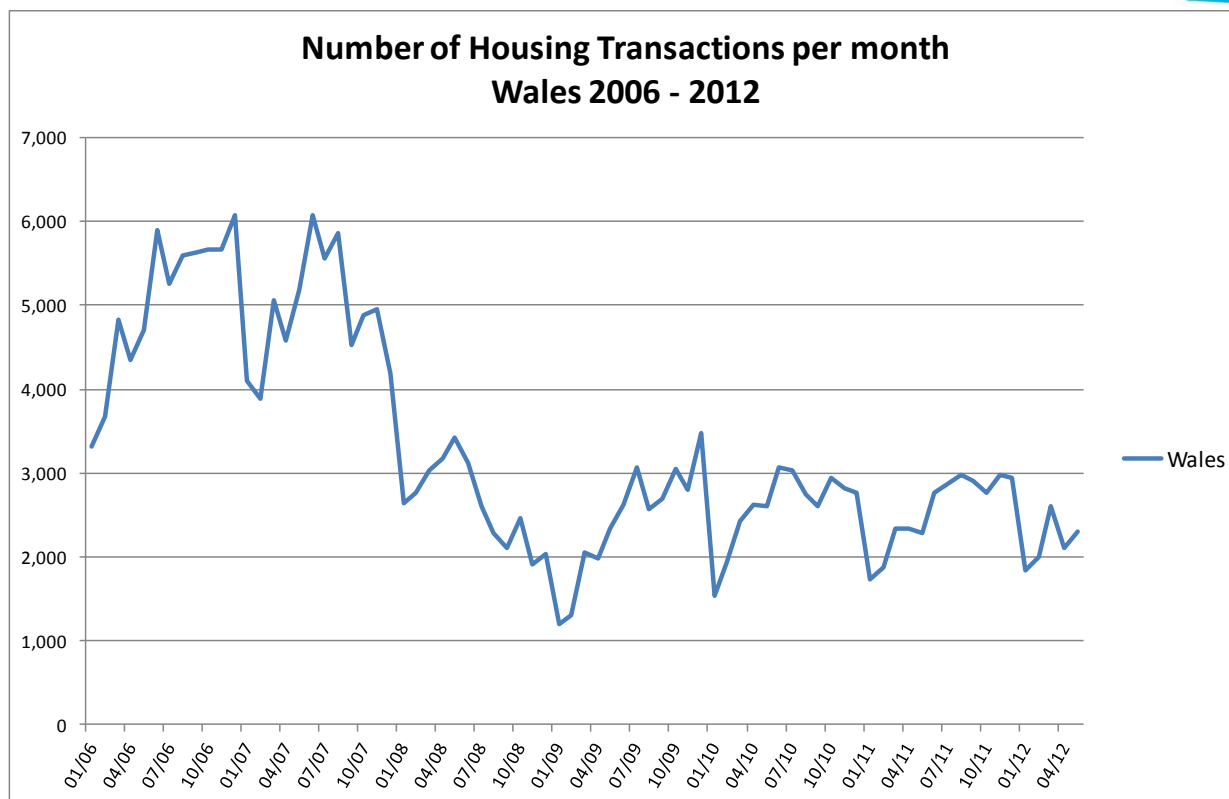


Figure 2. The number of housing transactions by month in Wales, 2006 - 2012 (not seasonally adjusted)

[link to source Excel](#)

The above graph shows the number of monthly transactions recorded by the Land Registry for the period January 2006 to May 2012, without seasonal adjustment. Traditionally, sales in Wales in May are 9% higher than in April, with the increase this year being almost exactly on target. The current housing market remains weak, with sales of properties over the year June 2011 to May 2012 being half the number from June 2006 to May 2007, five years earlier.

Activity in the housing market is likely to remain subdued this year for a number of reasons. There is the overall slow down in the economy and associated loss of consumer confidence; the ongoing difficulties in obtaining mortgage finance, with relatively high deposit requirements continuing to act as a barrier to potential purchasers; the rain in April and June which will have discouraged many from carrying out property searches; and lastly the Queen’s Jubilee and the Olympics which will both put a brake on property sales. We do not therefore foresee the property market in 2012 returning to anything like the levels of activity seen in 2006 and 2007.

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

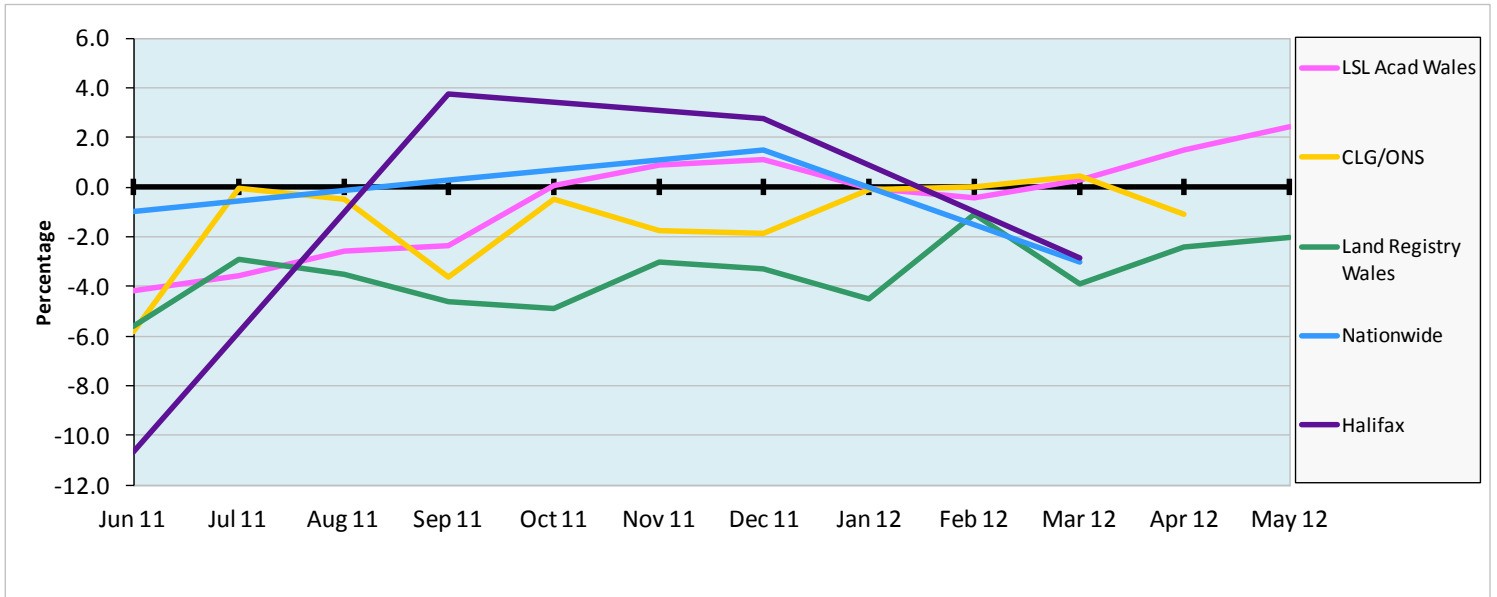


Figure 3. ANNUAL CHANGE IN HOUSE PRICES - COMPARISON OF INDICES

[link to source Excel](#)

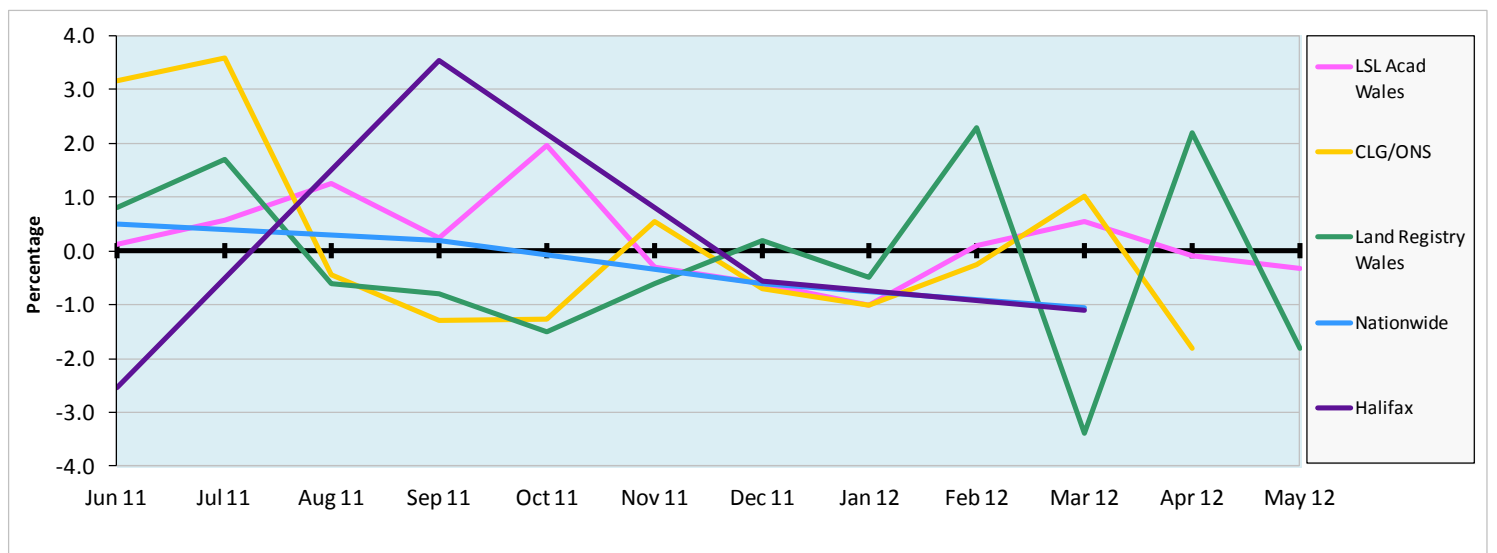


Figure 4. MONTHLY CHANGE IN HOUSE PRICES - COMPARISON OF INDICES

[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.

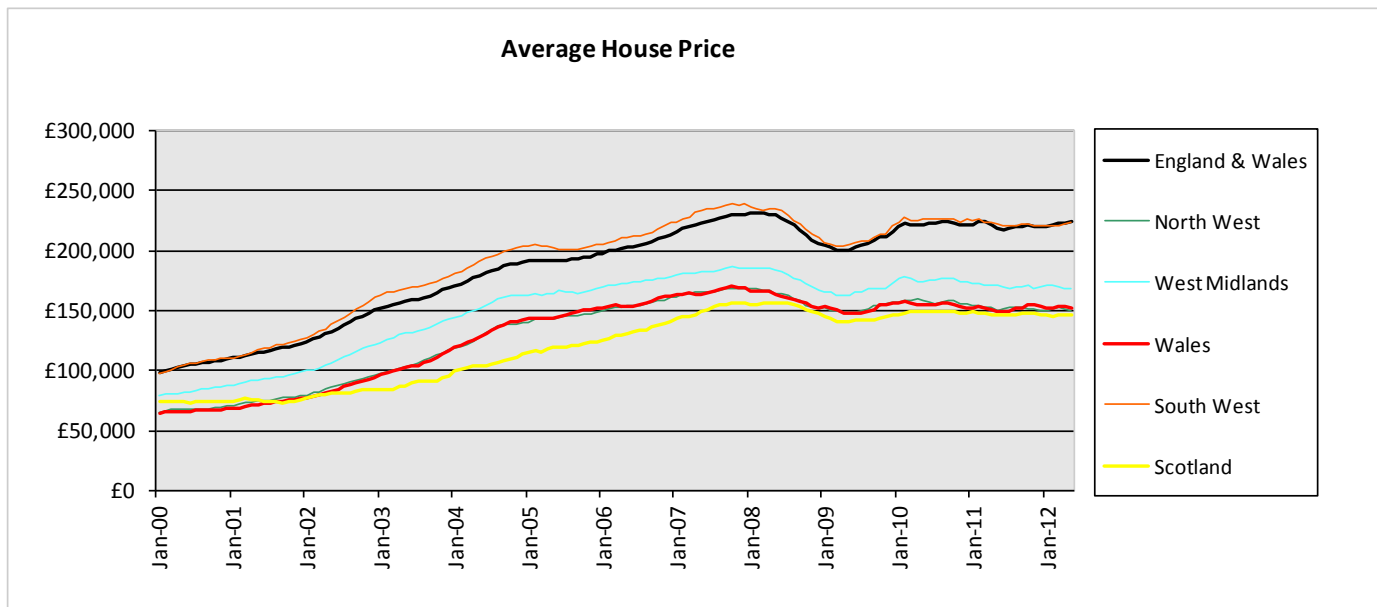


Figure 5. Wales house prices, compared with England & Wales, Scotland and regions bordering Wales for the period Jan 2000 - May 2012 [link to source Excel](#)

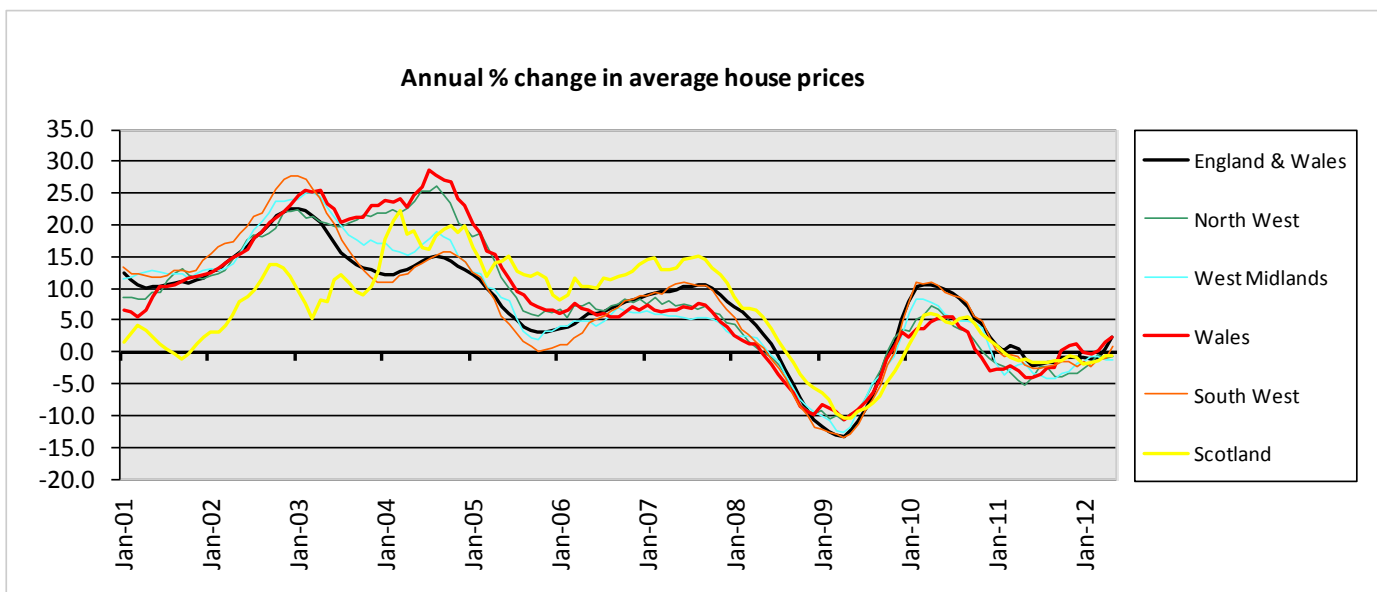


Figure 6. A comparison of the annual change in house prices in Wales, England & Wales, Scotland and regions bordering Wales for the period Jan 2001 - May 2012 [link to source Excel](#)

Nine unitary authorities in Wales

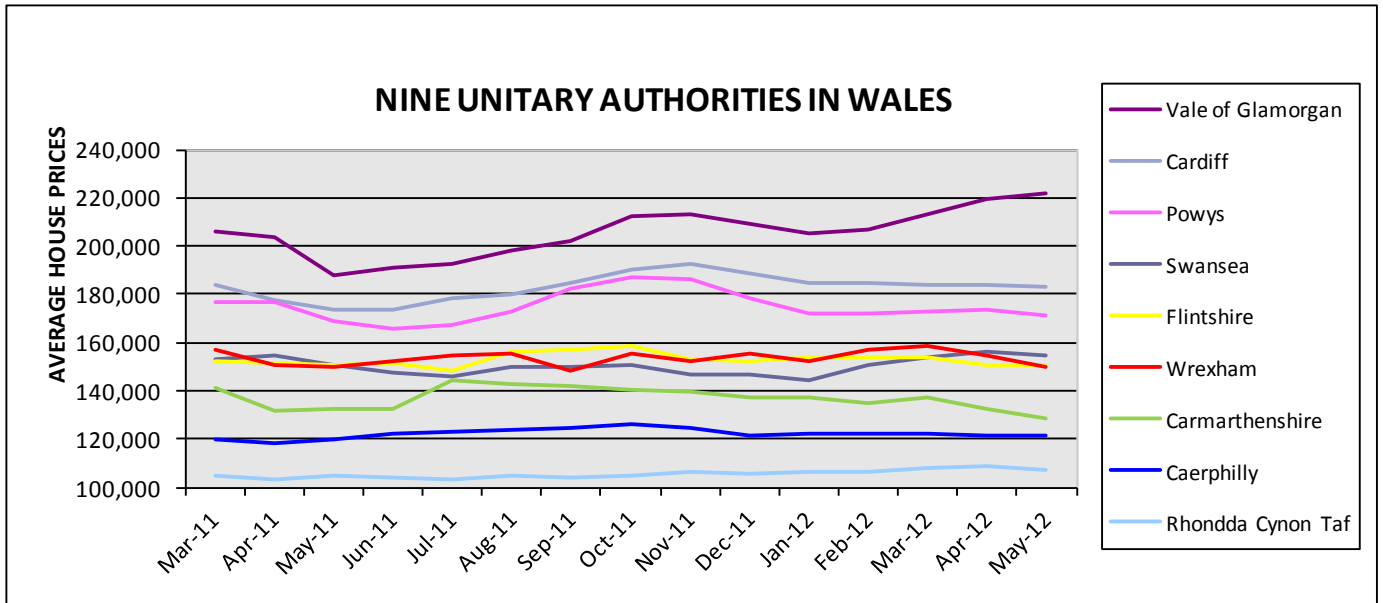


Figure 7. Average house prices for nine unitary authorities in Wales from March 2010 - May 2012

[link to source Excel](#)

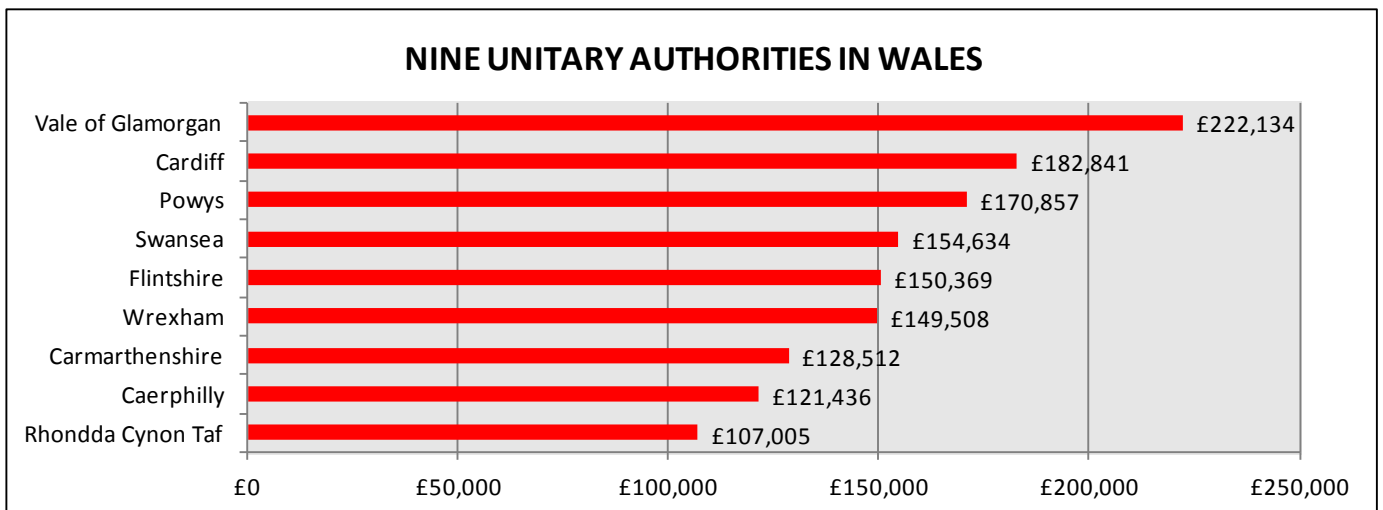


Figure 8. Average house prices for nine unitary authorities in Wales May 2012

[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