

## Knight Frank/Markit House Price Sentiment Index (HPSI)

# Optimism about house prices among private sector workers slumps amid downbeat economic data

### Key headlines for December

- UK house prices are perceived to have fallen in December, at a faster pace than in November. Households have reported falling prices every month since July 2010.
- House prices are expected to edge downwards in the next 12 months
- Record divergence in expectations for house prices between homeowners and renters
- Public and private sector workers broadly united in view on future house prices for first time since September 2009 as price rises are ruled out

### Change in current house prices

Knight Frank/Markit's November House Price Sentiment Index (HPSI) shows that the rate of decline in house prices increased in December. More than 20% of households said that the value of the property in which they lived fell during the month, with only 7% reporting a rise. The resulting HPSI figure of 43.3 is down from 44.7 in November.

Any figure under 50 indicates that prices are falling, and the lower the figure, the steeper the declines.

Property values fell in all regions in the four weeks to mid-December, but the scale of the declines varied across the UK, according to the survey of 1,500 households. Those in London (49.8) reported the mildest falls, while the sharpest declines were in the North East (38.5), Wales (38.8) and the East Midlands (39.4) where the reading dropped sharply from November (47).

Those working in media, culture and entertainment (52.3) reported price rises this month, the only sector to do so. Those working in retail reported the sharpest falls (40).

But those working in the private sector (43.4) were still slightly more upbeat about the performance of their house prices than those in the public sector (43), although both sectors reported sharper falls than in November and the margin between the two sectors remains at the narrowest since June this year.

### A lead indicator

Since the inception of the HPSI, the index has been a clear lead indicator for house price trends. Figure 3 shows that the index moves ahead of mainstream house price indices, confirming the advantage of an opinion based survey, which provides a current view on

Fig 1: Change in current value of property (HPSI)

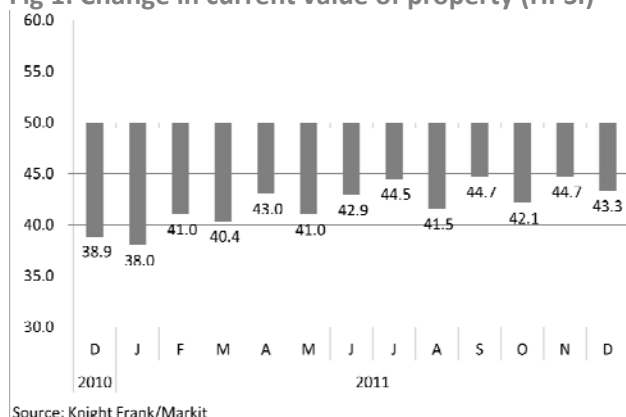
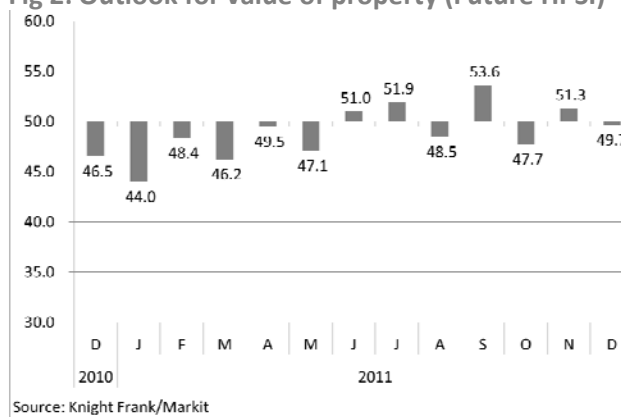


Fig 2: Outlook for value of property (Future HPSI)



NB: A score of 50 equates to no change, above or below representing growth or decline respectively.

**household sentiment, rather than historic evidence from transactions or mortgage market evidence.**

#### **Outlook for house prices**

The future HPSI, which measures what households think will happen to the price of their property over the next 12 months, fell just below the 50 no-change mark in December, with a reading of 49.7. This is down from 51.3 in November.

#### **Regional outlook**

Households in four of the 11 regions expect house prices to rise next year. While those in London (58.7) expect the biggest rises, this is down from a reading of 62 in November, suggesting they are now anticipating a more modest uplift. Prices are also tipped to rise in the East Midlands (53.4), the East of England (50.7) and the West Midlands (50.4). Those in the North East (40.9) are the most pessimistic about the outlook for house prices. Households in Scotland and the South East have seen the biggest deterioration in sentiment, with the HPSI readings falling from 57.3 to 47.9 and 48 to 56.1 respectively. However there was a record rise in optimism about house prices in Yorkshire, with the future HPSI reading rising from 38.6 to 49.

#### **Household variations**

Those who own their home expect prices to fall next year while those who are renting expect prices to rise. Mortgage borrowers (48.1) and those who own their home outright (43.3) are much more downbeat than those who rent from the local authority (54.7) and those who rent from a private landlord (53.6). This is the biggest divergence between these two groups since the series began in February 2009. Those living at home rent-free expect the biggest price rises over the next year. The reading of 56.1 is the third highest reading in the last year.

The divergence in outlook for house prices between those who work in the public and the private sectors narrowed to the smallest margin since September 2009, breaking the previous trend where those in the public sector were much more downbeat about the outlook for house prices. Public sector workers (49.4) and private sector workers (49.8) both expect prices to edge down next year. Last month private sector workers expected prices to rise (54).

#### **Analysis**

**Gráinne Gilmore, head of UK residential research at Knight Frank**, said: "This month's data is a stark reflection of the deterioration in the UK economy. Public sector workers have been more pessimistic about the direction of house prices than those in the private sector for most of the last two years, given the large-scale public sector cuts. But those in the private sector now share the view that prices may not rise next year and are closer in their outlook to public sector workers than at any time since February 2009. Today's unemployment figures highlight that the private sector is doing little more than treading water in terms of jobs.

"This comes in the wake of very downbeat Autumn Statement from Chancellor George Osborne, with massive downgrades to the UK's economic forecasts. The chances of the country entering another recession have not been ruled out, and the latest developments in the Eurozone have unsettled policymakers and the markets. While public sector cuts are set to continue, today's data reflects the reality that the private sector is also in for a bumpy ride.

"Those working in the retail sector reported the sharpest falls in the value of their homes, for the second month, perhaps reflecting the travails of the sector. Several high street names have gone bust in recent weeks, and there are expectations that more could follow before Christmas.

"It is also interesting to note the wide difference of opinion between those who own their home, who expect prices to fall over the next year, and those who rent, who expect prices to rise. Tenants in many parts of the country are faced with spiralling rents, and it stands to reason that they feel that homeownership is moving further from their grasp.

"Those who have children still living at home rent-free should be prepared for this situation to last, as this group expects the biggest rise in prices over the next year, which will make saving for a deposit an even longer process."

**Chris Williamson, chief economist at Markit**, said: "Households became gloomier about the housing market in December. Not only do people think that house prices fell on average compared to November, with the survey data pointing to an annual rate of decline of roughly 2%, but a further fall is expected over the coming year.

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"The bleaker outlook for the housing market is understandable given the recent weakening of the labour market and swathe of increasingly downbeat economic forecasts that have cast a shadow over the outlook. With unemployment hitting a 17-year high and job insecurity rife as job losses look set to mount in 2012, house sellers are likely to outnumber buyers for some time to come.

"Whether or not the rate of house price decline gathers pace in 2012 depends very much on the economic outlook and, in particular, the Eurozone's financial crisis. A worsening of the latter could be particularly damaging to the property market as it would impact in two ways. First, the UK would face an increased risk of being dragged into a double-dip recession, hitting demand for houses. Second, potential damage to the banking system via a credit squeeze would stifle the availability of mortgages."

**Ends**

## Knight Frank/Markit House Price Sentiment Index (HPSI) – Data Summary

Fig 3: HPSI vs house price indices (12 mnth change)

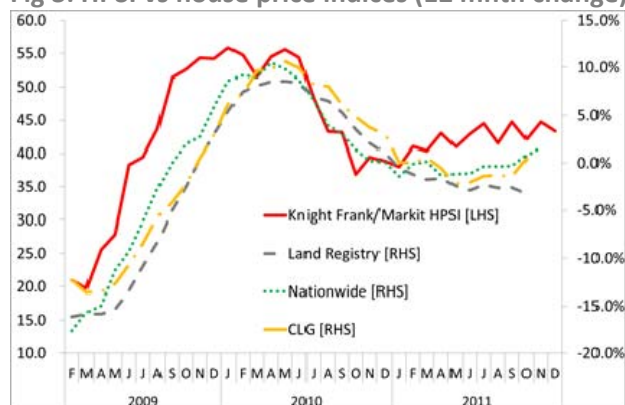


Fig 4: Regional change in current value of property



Current: Compared to one month ago, how do you think the value of the property/dwelling in which you live has changed?

	All UK	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Scotland
Dec-10	38.9	40.9	38.6	38.7	34.7	33.3	37.8	42.6	39.4	35.3	41.6	43.9
Jan-11	38.0	35.2	38.6	38.3	34.0	34.9	37.3	40.8	41.9	34.6	37.8	38.3
Feb-11	41.0	41.2	39.0	39.5	41.4	40.1	36.3	49.1	39.2	40.8	38.3	43.0
Mar-11	40.4	36.4	38.6	39.2	38.5	39.3	42.3	45.7	41.6	39.5	30.1	42.6
Apr-11	43.0	40.7	38.2	44.3	40.3	40.6	42.5	49.6	41.5	42.8	40.8	48.2
May-11	41.0	39.4	39.6	37.9	39.3	40.0	44.4	43.7	42.1	38.3	39.2	43.1
Jun-11	42.9	39.2	43.1	39.8	37.3	40.1	36.2	50.0	46.4	42.1	40.6	47.8
Jul-11	44.5	41.7	40.7	41.9	44.3	44.0	42.8	50.5	45.9	44.1	45.3	44.1
Aug-11	41.5	36.3	39.9	39.4	36.2	39.1	40.1	45.1	46.0	44.6	36.7	43.8
Sep-11	44.7	41.3	43.1	41.3	38.8	43.1	47.5	49.6	46.2	42.5	45.6	46.8
Oct-11	42.1	40.2	40.3	38.6	41.5	36.8	43.8	46.4	45.2	43.2	37.6	43.1
Nov-11	44.7	39.9	41.7	41.7	47.0	42.2	46.0	48.7	46.3	45.3	44.6	44.3
Dec-11	43.3	38.5	40.8	40.0	39.4	43.3	46.0	49.8	45.5	43.0	38.8	42.0

Future: How do you think the value of the property/dwelling in which you live will have changed 12 months from now?

	All UK	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Scotland
Dec-10	46.5	48.3	46.6	44.7	40.7	44.0	41.4	52.4	47.3	41.4	43.3	56.9
Jan-11	44.0	35.9	44.9	43.0	38.1	41.7	48.0	46.7	44.5	40.8	42.4	49.6
Feb-11	48.4	51.0	44.7	42.4	46.1	47.8	42.2	58.8	49.0	47.9	41.8	53.6
Mar-11	46.2	42.9	41.5	44.7	42.1	43.9	43.9	57.0	47.7	46.4	35.5	50.9
Apr-11	49.5	41.6	42.7	46.2	50.5	48.0	49.5	58.3	50.5	47.8	47.0	53.8
May-11	47.1	46.7	41.3	42.7	44.7	44.2	44.4	56.0	49.9	43.9	48.9	50.7
Jun-11	51.0	44.9	50.8	44.4	42.4	48.6	46.2	62.1	52.9	51.2	48.1	56.7
Jul-11	51.9	44.7	47.0	54.9	54.2	46.7	49.9	62.3	53.7	47.4	52.2	49.8
Aug-11	48.5	39.8	46.5	47.0	42.4	43.1	48.0	56.0	53.1	49.9	41.7	51.2
Sep-11	53.6	51.0	49.4	51.1	47.9	53.5	57.3	57.4	59.0	52.2	54.2	50.4
Oct-11	47.7	39.8	49.0	42.5	45.0	46.5	52.1	52.7	53.3	42.1	44.3	44.9
Nov-11	51.3	44.5	48.9	38.6	51.1	43.8	52.4	62.0	56.1	49.6	45.9	57.3
Dec-11	49.7	40.9	48.8	49.0	53.4	50.4	50.7	58.7	48.0	44.9	42.9	47.9

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#### **Notes to editors**

##### *About the HPSI*

The Knight Frank/Markit House Price Sentiment Index (HPSI) survey was first conducted in February 2009 and is compiled each month by Markit.

The survey is based on monthly responses from approximately 1,500 individuals in Great Britain, with data collected by Ipsos MORI from its panel of respondents aged 18-64. The survey sample is structured according to gender, region and age to ensure the survey results accurately reflect the true composition of the population. Results are also weighted to further improve representativeness.

Prior to September 2010, the Household Finance Index was jointly compiled by YouGov and Markit based on monthly responses from over 2,000 UK households, with data collected online by YouGov plc from its representative panel of respondents aged 18 and above. The panel was structured according to income, region and age to ensure the survey results accurately reflected the true composition of the UK population. Results were also weighted to further improve representativeness.

##### *Index numbers*

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

##### *Ipsos MORI technical details (December survey)*

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 7<sup>th</sup> – 12<sup>th</sup> December 2011. A representative sample of adults was interviewed with quota controls set by gender, age and region and the resultant survey data weighted to the known GB profile of this audience by gender, age, region and household income. Ipsos MORI was responsible for the fieldwork and data collection only and not responsible for the analysis, reporting or interpretation of the survey results.

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