

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

# House prices fall again in February but low base rates boost borrowers' expectations

### Key headlines for February

- UK house prices are perceived to have fallen again in February, for the 20<sup>th</sup> consecutive month
- All regions reported that prices fell this month
- Mortgage borrowers expect prices to rise over next 12 months, while those who own their home outright expect prices to fall
- Sharp deterioration in house price expectations among those working in the construction sector

### Change in current house prices

Knight Frank/Markit's February House Price Sentiment Index (HPSI) shows that house price declines continued in February. Around 6% of households believed that the value of their home had risen since January, while around 20% reported a fall. The resulting HPSI figure of 43.1 is down from 43.2 in January and 43.3 in December.

**Any figure under 50 indicates that prices are falling, and the lower the figure, the steeper the decline. Any figure over 50 indicates that prices are rising.**

Property values were perceived to have fallen in all 11 regions this month, according to the survey

of 1,500 households. The sharpest declines were in Wales (35.7) and Yorkshire and the Humber (38.2). London saw the least rapid decline (49.5).

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

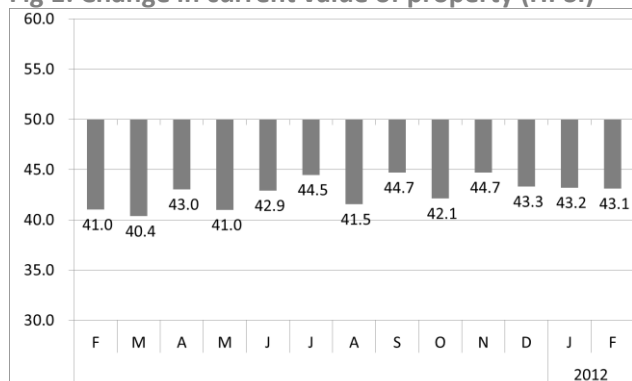
### Outlook for house prices

The future HPSI (figure 2), which measures what households think will happen to the value of their property over the next year, edged just above the 50 no-change mark in February, signalling that average prices across the UK will remain broadly flat. Some 26% of households said they expected the value of their home to rise, while 25.7% anticipate a fall, giving a reading of 50.2.

### Regional outlook

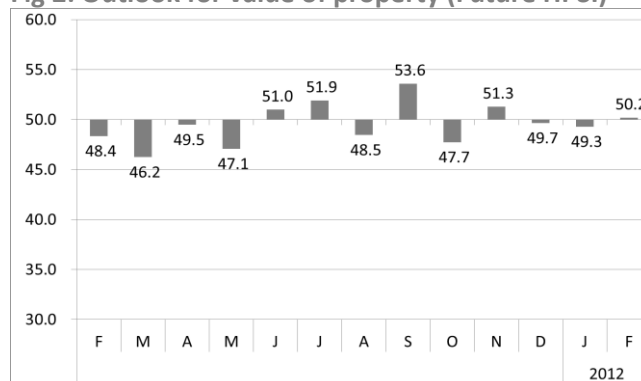
Households in six of the 11 regions expect the value of their homes to remain broadly stable or rise

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



Source: Knight Frank/Markit

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



Source: Knight Frank/Markit

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

over the next year, the largest proportion of regions which aren't expecting prices to fall since September last year. Households in London (59.9) expect appreciable rises, with those in the West Midlands (52.2) predicting more modest increases. Households in Yorkshire and the Humber (43.7) are most pessimistic about the outlook for prices, followed by those in Scotland (44.0) and Wales (45.4).

#### Household variations

Those working in the private sector (52.6) are more upbeat about the prospect of house prices rises over the next year than those working in the public sector (49.0).

There was a slight recovery in the outlook among those who work in the financial and business services sector, with a reading of 51, up from a record low of 43.1 last month. But this is still well below the average reading of 58.2 since the HPSI began. Those who work in the media, culture and entertainment sectors expect the biggest house price rises (63.2) followed by those working in IT and telecoms (59.8).

But there was a sharp fall in sentiment among those working in the construction sector, with a reading of 39.2, down from 55.4 in January, and the lowest reading since April 2009.

As has been the case for most months since early last year, there is a split in outlook among those who own their homes. Those who are mortgage borrowers (54.4) are more optimistic that the value of their property price will rise over the next 12 months, while those who own their home outright (46.1) expect prices to decline. But those who are most downbeat about house prices this month are those who are in social rented housing (44.7).

among households for property prices over the next 12 months varies on a regional basis, emphasising the multi-speed housing market. Yet the overall outlook is muted, reflecting the economic travails of the UK and the Eurozone which are sapping confidence in many parts of the UK.

"The current and upcoming public sector spending cuts seem to be taking their toll on workers in the sector, who remain much more downbeat about future house prices than their counterparts in the private sector.

"One bright spot for homeowners throughout the economic turbulence has been the record-low base rate. The fillip this has given to the household finances of many mortgage borrowers may signal why they are more upbeat about the future path of house prices than their fellow homeowners who own their home outright."

**Tim Moore, senior economist at Markit**, said:

"The latest survey points to subdued yet stable house price sentiment in February. UK households are split evenly on whether they expect their property value to rise or fall in the next 12 months. Continuing the trend seen in 2011, expectations of house price gains are concentrated in London and among those in the highest income group.

"By home status, mortgage holders are the most upbeat, with their property price forecasts the strongest since September 2010. Meanwhile, public sector workers remain more likely to anticipate house price declines than those in the private sector. These twin trends in many ways capture the essence of the overall house price outlook, namely that low interest rates are keeping a floor under property values, while lingering concerns about job security and incomes are acting as a counterbalance on prices."

**Gráinne Gilmore, head of UK residential research at Knight Frank**, said: "The outlook

Ends

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

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

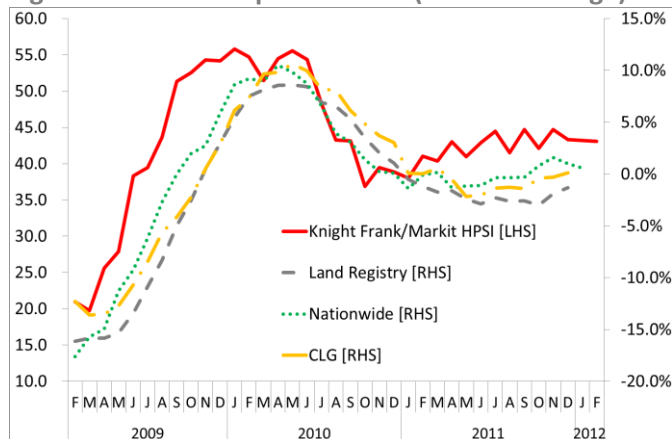
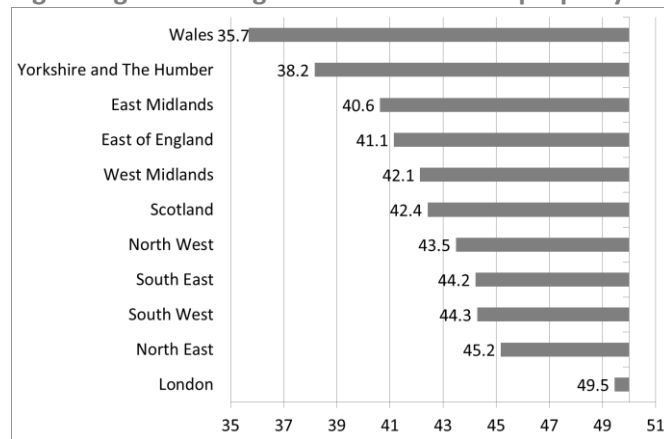


Fig 4: Regional change in current value of property



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
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
Jan-12	43.2	38.6	43.2	40.6	40.4	42.1	40.9	47.7	45.8	43.6	40.2	44.5
Feb-12	43.1	45.2	43.5	38.2	40.6	42.1	41.1	49.5	44.2	44.3	35.7	42.4

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
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
Jan-12	49.3	41.7	46.0	46.0	45.3	47.6	45.7	57.8	54.3	48.8	42.6	52.9
Feb-12	50.2	50.4	48.5	43.7	49.0	52.2	50.8	59.9	50.4	50.2	45.4	44.0

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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 (January survey)*

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 9<sup>th</sup> – 14<sup>th</sup> February 2012. 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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