

Knight Frank/Markit House Price Sentiment Index (HPSI) – MAY 2012

Households' optimism about house price rises undimmed by dire economic news

Key headlines for May

- Outlook for house prices remains positive for fourth consecutive month, with seven regions expecting price rises over next 12 months
- Future house price sentiment index (HPSI) remains at near 20-month high
- This positive forecast comes despite UK households perceiving a decline in value of their homes for the 23rd successive month in May
- Lower prices recorded in every region except London, with biggest declines in North West

Change in current house prices

Knight Frank/Markit's House Price Sentiment Index (HPSI) indicates that average prices fell again May. A decline in home values was reported by 17% of households, while 9.5% signalled that the value of their property rose. At 46.3, the resulting HPSI figure is up from April's reading of 45.4 and just under March's 20-month high of 46.6.

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.

As has been the case for the past three months, households in all but one region signalled that the value of their property had fallen in May. The survey of 1,500 households across the UK showed that sentiment was weakest in the North West (41.0) and West Midlands (42.5), indicating accelerated price falls. London bucked the trend again, with those living in the capital reporting that the value of their home had risen for the third month running, but at a much slower pace than in April (50.9, down from 53.6). Households in the South East (49.2) expect only minimal falls in prices, indicating that the north-south divide in house price movements continued in May.

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, remained in positive territory for the fourth consecutive month in April, the longest period of upbeat expectations since

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

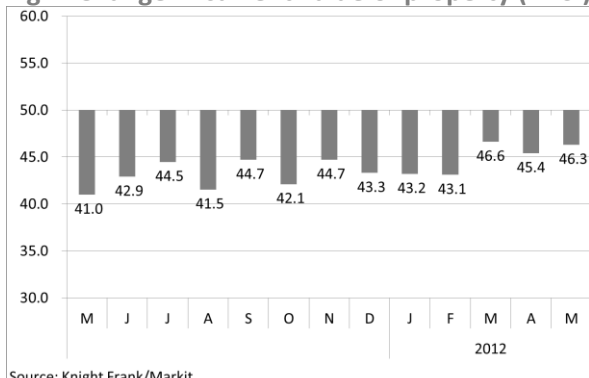
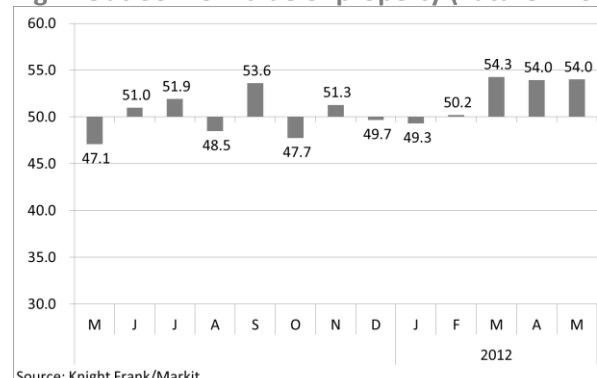


Fig 2: Outlook for value of property (Future HPSI)



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

mid-2010. Nearly a third of households anticipate a rise in the value of their home over the next 12 months, compared with 21% expecting a decline. The index reading is 54.0, unchanged from April and close to the 20-month high set in March.

Regional outlook

Despite the unchanged future HPSI reading, positive expectations for house prices were recorded in only seven of the 11 regions in May, down from nine in April. Respondents in London remain the most upbeat (62.8), followed by those in the East of England (61.0) and the South East (57.1). Households are most pessimistic about prices in the North West (47.0) and the West Midlands (47.2).

Household variations

Sentiment regarding future house prices is slightly more upbeat in the private sector (54.3) than the public sector (53.4), in line with the long-term trend.

Respondents working in the utility, energy and transport sectors forecast the steepest rise in the value of their property (69.7). This marked a sharp rise from April's reading of 53.8. Expectations are also strong in the media, culture and entertainment sector (63.9). The weakest sentiment is again in the retail sector (50.3, up from 50.1 in April), but survey participants now expect house prices to broadly stagnate, in contrast to the price falls predicted in the six months to March.

All types of homeowner expect prices to rise over the next year. The biggest price rises are forecast by those living rent-free at home (57.8), followed by those renting from a local authority (54.2) and those renting privately (53.8). Sentiment among mortgage borrowers (53.4), although remaining upbeat, slipped to the lowest level since January.

Gráinne Gilmore, head of UK residential research at Knight Frank, said:

“Despite reporting another month of house price falls in May, households remain confident that the value of their home will rise in future.”

“In fact households seem to have shrugged off the negative economic news about the UK's double-dip recession and the new problems facing the Eurozone, and the impact these factors could have on house prices, with most regions confident that the value of their home will rise at least modestly over the next 12 months.”

“As is perhaps to be expected after the recent price performances in the capital, those living in London expect the biggest price growth over the next year. At the same time, optimism in the South West of England slipped for the first time since January, underlining the increasingly regional nature of the UK housing market.”

“It will be interesting to see what effect the ‘feel-good factors’ of bank holidays and the Jubilee have on house price sentiment next month.”

Tim Moore, senior economist at Markit, said:

“UK house price sentiment for the year ahead remained surprisingly resilient in May, with households brushing off recent falls in property values and an intensification of the negative economic news flow. The north-south sentiment divide showed no sign of closing, and if anything widened slightly since April.

“There is, however, some evidence that sentiment among mortgage holders has started to waver, perhaps reflecting worries over higher standard variable rates coming into effect.”

“People with a mortgage defied the overall trend and noted the weakest future sentiment for four months. They also reported a much faster monthly reduction in property values than the average for all types of households in May.”

Ends

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

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

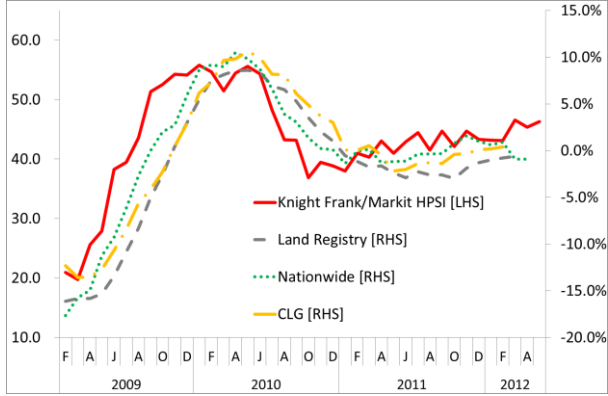
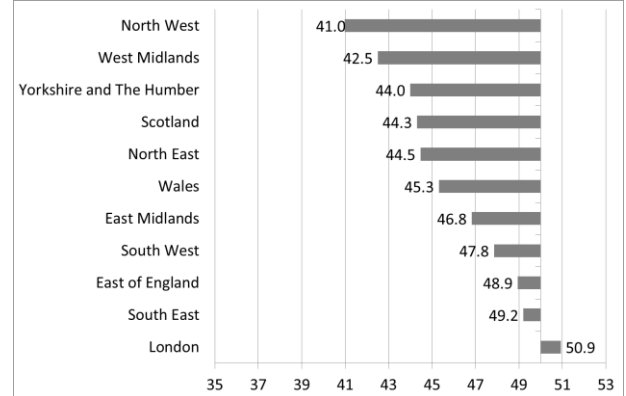


Fig 4: Regional change in current value of property



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	
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	44.5	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
Mar-12	46.6	43.1	41.4	44.9	41.4	45.8	49.6	55.1	48.4	47.9	43.0	43.8
Apr-12	45.4	39.1	43.3	41.0	41.4	45.8	42.1	53.6	48.8	47.3	39.2	45.6
May-12	46.3	44.5	41.0	44.0	46.8	42.5	48.9	50.9	49.2	47.8	45.3	44.3

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	
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
Mar-12	54.3	43.6	46.2	48.7	46.7	47.5	56.2	65.2	60.2	58.1	55.1	56.3
Apr-12	54.0	45.1	52.6	53.6	55.7	51.2	51.0	62.2	56.4	53.4	48.0	52.3
May-12	54.0	49.1	47.0	51.3	56.1	47.2	61.0	62.8	57.1	48.6	53.8	52.1

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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 (May survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 7th and 14th May 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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