

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

# Borrowers more optimistic on house prices as Bank of England hints rate rise off the agenda

### Key headlines for November

- UK house prices are perceived to have fallen again in November, the 17th consecutive monthly decline, although by a smaller margin than in October.
- Expectations for house price growth over the next 12 months turned positive in November, reversing October's negative outlook
- The divergence between expectations for house prices across income groups is the widest since the index began
- Mortgage borrowers more upbeat than those who own their home outright about future house price growth

### Change in current house prices

Knight Frank/Markit's November House Price Sentiment Index (HPSI) shows that the rate of decline in house prices slowed this month. Prices are perceived to have been on a downward trend since July last year.

Around a fifth of the 1,500 households surveyed this month said that they thought the value of their property had fallen, while only 8% said that prices had risen. The resulting HPSI figure of 44.7, is up from 42.1 in October, and matches the reading from September, which was the highest

since July last year. Any figure under 50 indicates that prices are falling.

Property values were reported to have fallen in all regions, with those in the North East perceiving the sharpest falls in prices (39.9). London (48.7) and the East Midlands (47) were the most resilient markets, with the East Midlands recording its highest reading since July last year.

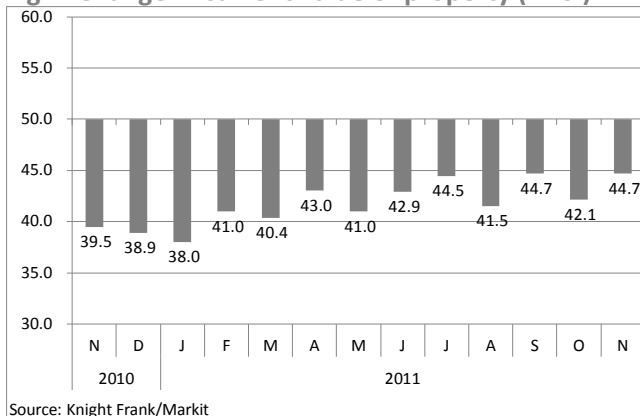
Those working in the utilities, energy and transport sectors were the most upbeat about the performance of their property prices, with an index reading of 50.7, indicating that average prices rose. But those in the retail industry were the most downbeat, with a reading of 42.9.

Those working in the private sector (45.1) were more positive about their house price than those in the public sector (44.7), but the margin between the two sectors narrowed to the smallest gap since June this year.

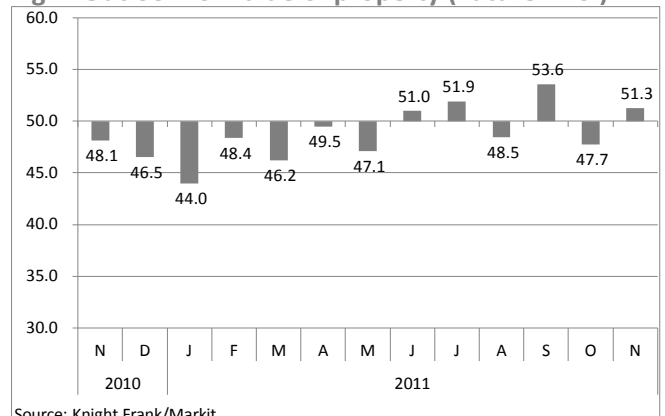
### A lead indicator

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

**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.

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, which measures what households think will happen to the price of their property over the next year, bounced back into positive territory this month, as the proportion of people who expect their property price to fall declined. Some 26% expect price falls over the next year, down from 30% in October, while 28% expect price rises, up from 26% in October. The resulting reading of 51.3 is up from 47.7 in October.

### Regional outlook

Households in five of the 11 regions expect prices to rise next year. London leads the way with a reading of 62, up from 52.7 in October. Residents in Scotland are also much more upbeat about the outlook for prices, with a reading of 57.3, the highest reading in a year. Prices are also tipped to climb in the East Midlands (51.1), the East of England (52.4) and the South East (56.1).

But there has been a sharp downturn in the outlook in Yorkshire and the Humber where the index fell to 38.6, the lowest reading in this region since March 2009.

### Household variations

Those who own their home outright expect the value of their property to fall over the next year (46.4). In contrast, those with a mortgage (52.4) expect prices to rise. But those in the private rented sector (56) expect the biggest jump in prices over the next year, and at a faster pace than they reported in October (52.8).

There was also a burst of pessimism from those still living at home (47.4) who said that the value of the property they lived in would decline over the next year, the first time the reading has been below 50 since May this year.

Optimism about house prices among those working in the private sector returned, with the index returning to positive territory (54) after falling to 48.6 in September. Those working in the public sector are also more upbeat about prices

(49.5) than in October (42.4) although they still expect modest price falls by November next year.

In line with the recent trend, households with an income of more than £58,000 a year were most upbeat about prices (65.4), while those earning less than £15,000 (45.7) expect the largest price falls. The gap between these outlooks for the housing market is the widest on record.

However those earning between £23,000 to £34,000 (46.8) were more downbeat than those earning between £15,000 and £23,000 (49.9).

### Analysis

**Gráinne Gilmore, head of UK residential research at Knight Frank,** said: “The striking divergence between income groups in their outlook for future house prices reflects the different strata of the housing market, which are moving at varying speeds. While average house prices across the UK have remained broadly stable over the last year, our Prime Central London Index shows that prime property values in central London have risen by 12.5%.”

“The future HPSI has hovered around 50 for seven months now, indicating that there will be little substantial growth in house prices over the next year. We forecast that prices will achieve growth of just 1.3% this year before falling 5% in 2012.”

“The upturn in confidence among mortgage borrowers about future property prices may well have been prompted by increasing signs from the Bank of England that it will keep the base rate pegged at record lows for some time yet, good news for those on variable rate deals. In fact this week, in its Inflation Report, the Bank gave strong signals that it would extend its programme of quantitative easing, indicating that rate rises are definitely off the agenda for the time being.”

“Renters expect the biggest house price rises over the next year, perhaps reflecting the increased difficulties they face to climb onto the housing ladder under the current financial conditions.”

**Tim Moore, senior economist at Markit,** said: “Three key themes stand out in the latest survey, namely a record regional divergence in people’s

expectations for their property values, the widest ever spread in sentiment across income groups, and opposing views on future prices between those who own their homes outright and renters.

“A widening regional divergence reflects the continued resilience of house prices in London and the South East. This stands in deep contrast to anticipated reductions in property values throughout the North of England.

“Indeed, while more than twice as many Londoners expect their property value to rise in the year ahead as those that forecast a decline, the opposite is true in Yorkshire & Humber. “Income level data suggests a contrast in house price confidence between the top end and the rest of the housing market. Only those in the highest income group are upbeat overall about

the outlook for their property value, and the level of positive sentiment is the greatest since mid-2010.

“Meanwhile, people renting from private landlords anticipate higher property values in the year ahead, while those owning their home outright expect prices to fall. These trends bode ill for consumer spending, especially on big-ticket items, since it suggests homeowners will tighten their belts in the face of worries about their asset values while those looking to get onto the housing ladder may feel the need to postpone spending in order to guard against greater deposit requirements.”

**Ends**

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

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

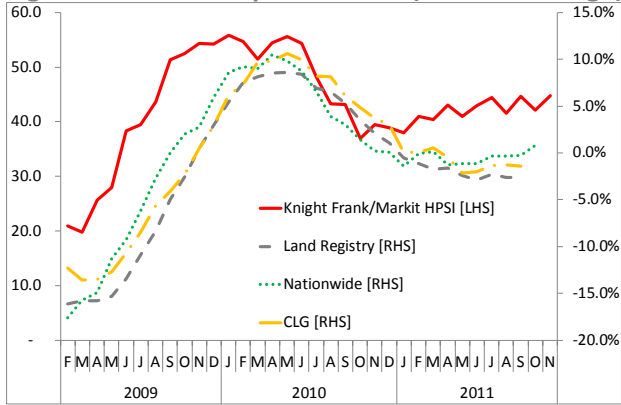
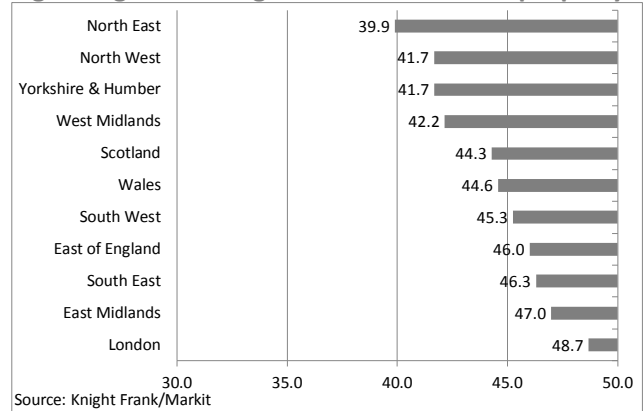


Fig 4: Regional change in current value of property



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
Nov-10	39.5	38.2	37.2	33.1	34.3	37.7	39.2	41.1	41.6	41.2	39.0	48.3
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

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
Nov-10	48.1	45.0	45.4	43.8	43.9	45.2	47.0	52.0	54.1	47.7	45.7	51.5
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

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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 (September survey)*

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 8<sup>th</sup>-11<sup>th</sup> September 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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