

Knight Frank/Markit House Price Sentiment Index (HPSI)

Sharp reversal in house price expectations as sentiment among public sector workers slumps

Key headlines for October

- UK house prices are perceived to have fallen for the 16th consecutive month in October, at a much sharper rate than in September
- Expectations for house price growth over the next year turned negative this month, with homeowners at their gloomiest about the outlook for prices since May
- Households with incomes of between £15,000 and £23,000 expect the biggest falls in prices over the next year, while those earning more than £58,000 expect prices to rise modestly
- Workers in the public sector are most downbeat about the outlook for house prices, expecting bigger declines in prices than those in the private sector or those who are not working

Change in current house prices

Knight Frank/Markit's October House Price Sentiment Index (HPSI) shows that the rate of house price falls increased in October, and that prices are perceived to have fallen every month since July last year.

Nearly a quarter of the 1,500 households surveyed said that the price of their home had fallen this month, while only 7% said that prices had risen. The resulting HPSI reading of 42.1 is down from 44.7 in September. Any figure under 50 indicates that prices are falling.

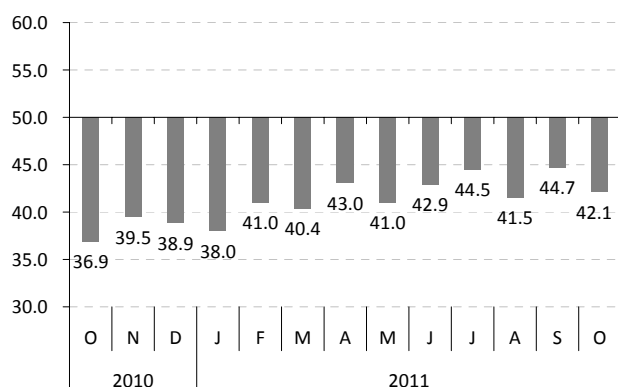
Those working in the public sector (40.7) perceived that the value of their home fell more quickly over the last month than those working in the private sector (42.4) and those who are not working (42.0).

Lower prices were reported in all regions, although those living in London (46.4) thought that the value of their home fell at a more modest rate than those living outside the capital. The sharpest falls were reported in the West Midlands (36.8) and Wales (37.6).

A lead indicator

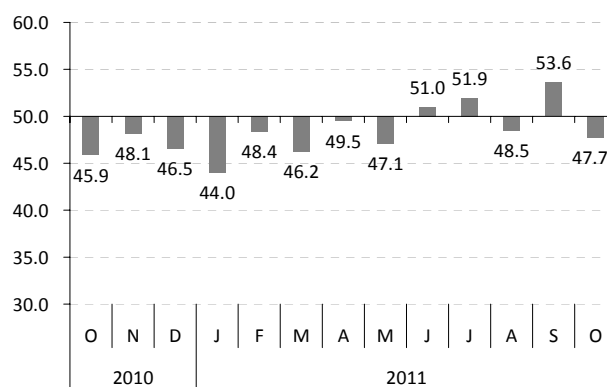
Since the inception of the HPSI, the index has been a clear lead indicator for house price trends. Figure 3 shows that the index moves ahead of mainstream house price indices, confirming the advantage of an opinion-based survey which provides a current view on household sentiment,

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.

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, turned negative this month, falling to 47.7 from 53.6 in September. This is the lowest reading since May 2011.

Regional outlook

Households in eight of the 11 regions expect prices to fall in the coming year, the largest proportion of regions with a negative outlook since May this year. Those in the North East (39.8) are expecting the biggest declines, followed by those in the South West (42.1) and Yorkshire and the Humber (42.5).

Only three regions expect house prices to rise in the coming year: London (52.7), the East of England (52.1) and the South East, where households are the most optimistic of all regions, reflected in a reading of 53.3, although this is down from 59.0 in September.

Household variations

Homeowners are much more downbeat about the future path of house prices than those who are renting.

Mortgage borrowers (46.2) expect prices to fall over the next year, a change from their optimism about price rises in September (53.3). Those who own their home outright are even more gloomy (43.5), marking the 15th consecutive month they have said their house price will fall rather than rise. However those renting from private landlords (52.8) still expect prices to rise, albeit at a slower pace than September (56.6).

The brief spell of optimism among public sector workers for future price stability, seen in September, was reversed this month, with the reading falling from 50.3 to 42.4, the lowest reading since January this year and the second lowest reading in two-and-a-half years. The margin between the outlook of government workers and their counterparts in the private sector (48.6) is the widest since the index began

in early 2009. Even those not working (49.3) because they are retired or unemployed, are more upbeat than public sector workers about how their house prices will perform.

Only households with an income of more than £58,000 a year expect the value of their house price to rise next year. All households with smaller incomes expect prices to fall, with those in the income bracket between £15,000 and £23,000 anticipating the sharpest declines (43.8).

Analysis

Gráinne Gilmore, head of UK residential research at Knight Frank, said: "The sharp reversal in sentiment for future house prices came as a raft of disappointing economic data signalled that the UK was struggling to emerge from recession. While the renewal of quantitative easing by the Bank of England will have re-assured homeowners that their mortgage rates will stay low for some time yet, it signalled that the economy is not yet back on its feet, which will have dented confidence among households across the UK.

The wide divergence of sentiment between those who work in the public and private sector also casts light on an additional factor affecting the housing market at present - namely the public sector spending cuts, with many communities being hit by job losses, especially in the North of England.

However there are some glimmers of hope from other corners of the economy with those working in finance and business and manufacturing among the most optimistic for future house price growth.

But the downbeat data suggests that the current broadly-stable prices in the market may be hard to maintain in the coming year."

Tim Moore, senior economist at Markit, said: "Weak labour market conditions and heightened concerns about the economic outlook took their toll on house price expectations in October, as sentiment fell back to its lowest level since the start of the summer.

This is the first snapshot of house price sentiment since the Bank of England announced its latest

expansion of quantitative easing, and the survey therefore suggests that we are unlikely to see a repeat of the rebound in house prices that followed the first round of quantitative easing in early 2009.

Instead, the latest figures point to a widening regional divergence in property price trends. Expectations of higher prices in London and the Home Counties contrast with negative sentiment elsewhere.

House price sentiment in the Capital has been positive for much of the last two-and-a-half years, an unmatched record of resilience compared to the rest of the UK.

Meanwhile, areas with high concentrations of public sector jobs appear most likely to see property price declines, as highlighted by the record gap between public and private sector house price sentiment in October.”

Ends

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

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

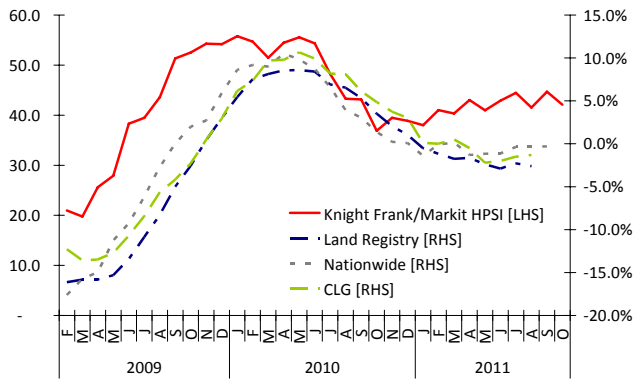
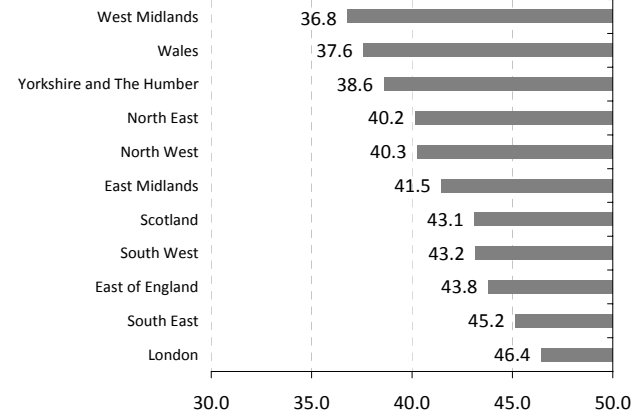


Fig 4: Regional change in current value of property



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
Oct-10	36.9	36.2	37.0	33.5	28.8	35.8	33.4	40.8	41.7	35.0	31.2	43.3
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

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
Oct-10	45.9	42.9	46.5	39.7	36.0	41.5	42.3	49.4	52.4	45.0	39.9	57.5
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

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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 8th-11th 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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