

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

Abrupt end to summer optimism over house prices

Key headlines for October

- UK households perceive that the value of their home declined again in October, and that they have been falling since July 2010
- Every region reported that property values fell over the last month, the first time that this has happened since February
- The outlook for house prices fell sharply, with households expecting only a modest rise in prices over the next 12 months
- Households in only three regions expect prices to rise in the coming year, the lowest proportion since January this year

Change in current house prices

Knight Frank/Markit's House Price Sentiment Index (HPSI) signals that average house prices fell for the 28th consecutive month in October. Only 6% of households said the price of their home had risen, while 16% said that their property value had declined. This resulted in a HPSI reading of 45.0, down from 46.8 in September and the second lowest reading since February.

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.

The survey of 1,500 households across the UK showed that households in every region felt the value of their home fell over the last month. Even Londoners reported price falls (49.5), the first time this has happened since February this year. Prices fell most in the North West (40.5) and East Midlands (40.5) according to residents.

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, fell in October. Around 24% of households anticipate a rise in the value of their home over the next 12 months, while 23% expect a fall. The resulting index reading is 50.5, down from September's reading of 53.2 and marking the sharpest fall in the future price index for a year.

Regional outlook

Expectations for house price rises were recorded in only three of the 11 regions in October. This marks a dramatic departure from the trend seen throughout the spring and summer months when an average of six regions forecast that house prices would rise.

In another change, London (59.8) has been overtaken by the South East (60.8) in terms of the scale of house price growth expected for the first time since October 2010. Households in both regions are still expecting a healthy rise in prices over the next year, but the future HPSI reading for London is the lowest since January this year. The only other region expecting price rises is the West

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

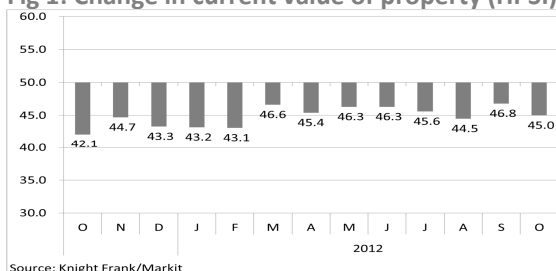


Fig 2: Outlook for value of property (Future HPSI)



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

Midlands (53.2) with the highest reading in more than a year.

Households in the North West (42.1) are the least optimistic about prices. In fact, this is the lowest reading since May last year, although households in the region have been forecasting house price falls for the past six months.

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

“The summer ‘feel-good’ factor has ended with a bump. There have been glimmers of good economic news over the past few months, but these have been rather overshadowed by party political conferences which have focused closely on the difficult economic climate.

“In addition, the International Monetary Fund (IMF) dramatically revised down its forecasts for the UK economy this month, denting confidence that the current fiscal austerity plans will be enough to deliver convincing growth.

“This downturn in economic sentiment has been reflected in the house price sentiment index. Households in London and South East as ever remain most positive about the outlook for

prices, but it is interesting to note that even Londoners’ expectations have lessened in terms of the price increases expected, with the second lowest future HPSI reading since the start of the year.”

Chris Williamson, chief economist at Markit, said:

“The drop in sentiment about house prices over the coming year is a surprise, and suggests that the Government’s Funding for Lending Scheme, which - according to the lenders – reportedly resulted in a marked increase in the availability of finance for mortgages in the third quarter, has yet to filter down to improved optimism about the housing market. Instead, it seems that people have become more nervous about the economic and housing market outlooks for the coming year.

“Once again, the economic recovery appears to be missing the vital ingredient of confidence. The future outlook is clouded by confusion over the current health of the economy and the appropriate policy response, as well as worries about the impact of austerity and the eurozone’s crisis.”

Ends

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

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

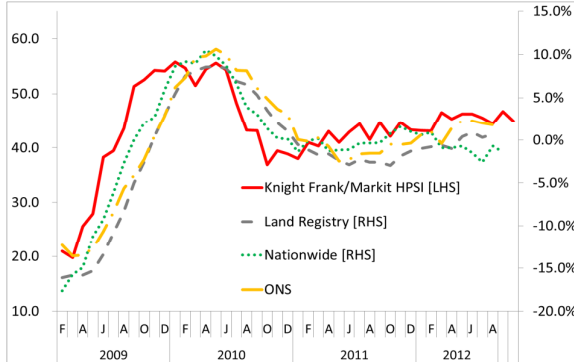


Fig 4: Regional change in current value of property



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-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
Jun-12	46.3	41.9	47.4	46.9	47.7	44.3	47.2	50.7	44.3	45.0	40.4	47.4
Jul-12	45.6	42.0	44.8	43.9	41.6	46.6	48.4	51.0	46.1	44.1	43.0	43.5
Aug-12	44.5	44.2	39.5	41.9	42.8	42.5	46.9	51.9	45.0	43.9	39.8	45.8
Sep-12	46.8	47.0	44.7	46.2	45.5	43.2	50.3	53.4	48.4	46.4	44.7	40.0
Oct-12	45.0	44.8	40.5	43.4	40.5	45.0	42.0	49.5	49.1	43.6	41.9	49.0

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
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
Jun-12	53.1	45.5	47.7	52.0	52.6	52.6	55.4	60.2	55.3	46.7	54.3	54.8
Jul-12	51.9	45.5	49.7	37.9	48.5	52.3	53.9	63.5	53.6	49.1	56.2	51.8
Aug-12	51.8	46.2	44.1	52.7	48.9	47.3	53.1	61.3	53.4	52.2	49.4	52.8
Sep-12	53.2	54.6	48.5	46.4	51.0	52.2	56.2	63.1	55.7	55.0	47.9	47.1
Oct-12	50.5	45.1	42.1	43.9	44.5	53.2	49.4	59.8	60.8	47.8	43.7	49.8

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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 (October survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 11th – 15th October 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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