

Knight Frank/Markit House Price Sentiment Index (HPSI)

House prices fall again as expectations in financial sector slump

Key headlines for January

- UK house prices are perceived to have fallen again in January, for the 19th consecutive month
- The rate of decline has eased over recent months
- Property values will be broadly stable over coming year
- Sharp deterioration in house price expectations among those working in the financial and business services sector

Change in current house prices

Knight Frank/Markit's January House Price Sentiment Index (HPSI) shows that the rate of decline in house prices was similar to that in December. Some 5% of households said that the value of their home had risen since December, while around 19% reported a fall. The resulting HPSI figure of 43.2 is down from 43.3 in December, but well up from the reading of 38 recorded in January last year.

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

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 the North East (38.6) and Wales (40.2). The least pronounced falls were in London (47.7), but this is still the lowest reading for the capital in three months.

There was a notable deterioration in sentiment among those who own their own homes outright. The HPSI reading for this group was 36.4, down from 40.8 in December, and matching the lowest reading in eight months.

Those working in the private sector (44.9) were slightly more upbeat than those working in the public sector (42.1) about the rate of decline in their house prices.

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, which measures what households think will happen to the value of their property over the next year, remained below, but close to, the 50

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

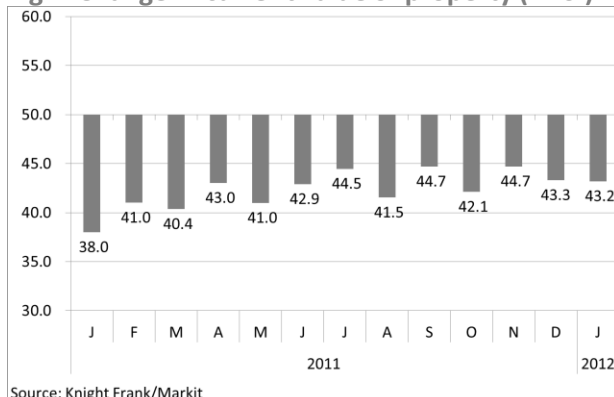
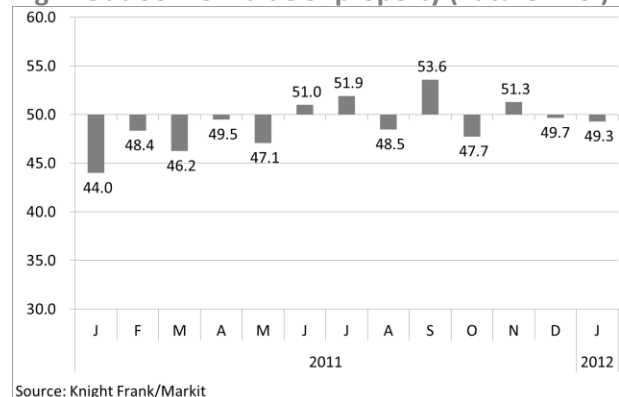


Fig 2: Outlook for value of property (Future HPSI)



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

no-change mark in January for the second month at 49.3, down from 49.7 in December. This is the first time the index has remained below 50 for more than a month since May last year.

Regional outlook

Households in only three of the 11 regions expect the value of their homes to rise over the next year: London (57.8), the South East (54.3) and Scotland (52.9). Prices are expected to decline in all other regions, with the biggest falls anticipated in the North East (41.7) and Wales (42.6).

Household variations

Sentiment about future house price movements has dropped sharply among those working in finance and business services. January's reading of 43.1 is down from 58.7 in December and marks the lowest reading since this index began in April 2009 – just as the recession started to ease.

It is also the lowest reading across all sectors in January, reversing the trend over the last six months when workers in this sector expected the biggest rise in house prices.

However there was a surge in optimism over house prices among those working in the construction sector, with a reading of 55.4, up from 44.5 in December.

Mortgage borrowers (51.6) and tenants (50.3) expect prices to rise over the next year, but those who own their home outright (47.2) expect a fall in prices.

The biggest deterioration in expectations is among those who live rent-free at home. January's reading of 43.9 is down from 56.1 in December, and is only the second time the reading has been below the 50 no-change mark in the last eight months.

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

“There is little New Year cheer among households this month, perhaps reflecting the wider economic uncertainty throughout the UK, with fears that the country may be back in recession only compounded by alarming unemployment figures released earlier this week.

“The sharp reversal in sentiment about future house prices among those working in finance and business services is also evidence of the toll being taken on that sector at present as many banks cut thousands of jobs. It is striking that this sudden fall in confidence coincides with the traditional ‘bankers’ bonus’ season.

“The regional differences in expectations for house prices also highlight the North-South divide which is becoming ever more evident in the housing statistics. With the exception of Scotland, where households also expect prices to bounce back over the next year, households in London and the South East are far more upbeat than those elsewhere in the country”.

Tim Moore, senior economist at Markit, said:

“The verdict from households across the UK is that there will be little movement in their property values during 2012, with exactly half expecting no-change and only slightly more anticipating a fall than a rise. Forecasts of roughly stagnant house prices are symptomatic of the caution prevailing about local job market conditions and the gloomy economic news spreading from the euro area.

“People working in finance and business services saw a steep reversal in their house price expectations during January, highlighting the sensitivity of property value sentiment to labour market developments. Although the HPSI survey has a relatively short history, house price sentiment in this industry has so far been a useful bellwether for future developments in the wider market.”

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

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

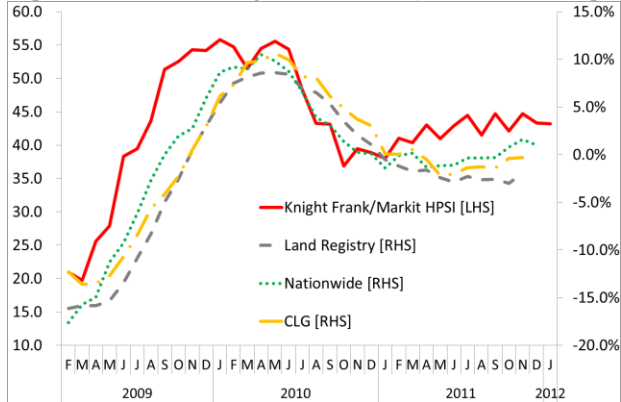


Fig 4: Regional change in current value of property



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	
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
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

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	
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
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

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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 11th – 16th January 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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