

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

Mind the (age) gap: House price sentiment deteriorates in July as over and under-45s diverge on outlook for prices

Key headlines for July

- UK households in every region apart from London perceive that the value of their home fell again in July
- Values have declined every month since June 2010, according to UK households
- Outlook for house prices deteriorates, with households expecting a more modest uplift in values over the next 12 months
- Over-45s expect house prices to fall over the next year while those under 45 expect price rises

Change in current house prices

Knight Frank/Markit's House Price Sentiment Index (HPSI) signals that average house prices fell again in June. Around 17% of households said the price of their home declined, while 8% said the value of their property rose. The resulting HPSI figure is 45.6, down from 46.3 in June, and marking the 25th consecutive month that households perceive the value of their property has fallen.

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 London (51.0) was the only region where households felt the value of their home

had risen over the past month, albeit very slightly. In contrast, households in the other ten regions all reported house price falls. However the North-South divide was less clear-cut, with households in the East Midlands (41.6) reporting the biggest falls in prices, in comparison to less pronounced declines in the North West (44.8). However the price falls were more modest in the East of England (48.4).

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 July, although it remained in positive territory. Around 29% of households anticipate a rise in the value of their home over the next 12 months, compared with 25% expecting a decline. The resulting index reading is 51.9, down from June's reading of 53.1 and marking the third decline in the last four months.

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

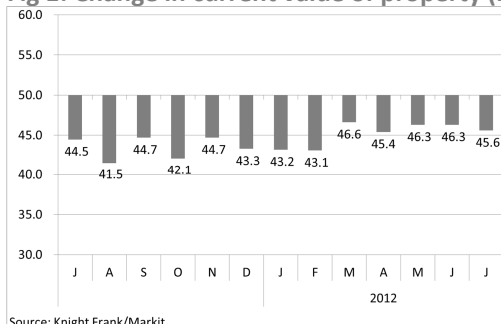
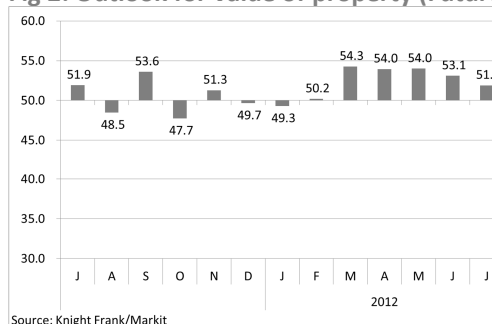


Fig 2: Outlook for value of property (Future HPSI)



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

Regional outlook

Expectations for house price rises were recorded in only six of the 11 regions in June, the lowest count since March. Respondents in London remain the most upbeat, with the measure of expectations in the capital rising from 60.2 to 63.5. This was the only region where expectations that house prices would rise gained momentum apart from Wales, where the measure also rose from 54.3 to 56.2. But expectations reversed sharply in Yorkshire and the Humber (from 52.0 to 37.9), hitting the lowest level since March 2009. Mirroring the fall in sentiment about current house prices in the East Midlands, the outlook for house prices also dropped from 52.6 to 48.5 in this region.

Household variations

There is a marked difference in outlook for house prices among those who are under and over 45 years old.

All age-groups under 45 expect house prices to rise over the next 12 months, while all of those aged over 45 expect prices to fall. This indicates broadly that established homeowners are more downbeat than recent purchasers and renters about the future movement of property prices. But this assumption is blurred slightly by additional data which shows that while those who own their home outright expect house prices to fall over the next year (46.6), mortgage borrowers, who are benefitting from low repayments, tip prices to rise (53.1) albeit at a slower pace than in June (56.9). Those in private rented property and living rent-free at home (54.8, 54.3) also expect price rises over the next year, perhaps reflecting the difficulties they face to climb on to the housing ladder.

Gráinne Gilmore, head of UK residential research at Knight Frank, said: "There has been a marked decline in sentiment about current and future house prices in July. This coincides with worsening data from the UK and Eurozone

economies, which has weighed on confidence in all corners of the country."

"The age 'gap' between those over and under 45 is perhaps some reflection of how the economic developments are affecting those at different times of their life. It is typically older homeowners who own their house outright or who have paid off a significant chunk of their mortgage. These households seem to be preparing themselves for an erosion of the value of their asset as house prices fall. In contrast, younger families and individuals face an uphill battle to move home or get on to the housing ladder, and if prices rise as they expect, this will exacerbate their problems.

"It seems all age groups are pessimistic about house price movements working in their favour."

Tim Moore, senior economist at Markit, said: "Twice as many households reported a drop in their property value as those that saw a rise in July, and the national balance would have been far lower without the positivity recorded in London.

"Looking ahead, the survey shows that house price expectations in the capital have long been detached from the rest of the UK. However, perhaps the most notable development in July was a split between sentiment across the older and younger age groups, with only the latter forecasting price rises.

"Given the on-going squeeze on mortgage finance available to first time buyers and those with low housing equity, older households are especially dominant in the property market at present. The survey indicates that this cohort were 'ahead of the game' in seeing the end of the property rebound during 2010. Older households are traditionally viewed as mainly driving parts of the market affected by downsizing trends but, with their overrepresentation in current transactions and the shortage of new mortgage lending, it will be interesting to see if their expectations translate into a useful bellwether for the wider property sector."

Ends

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

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

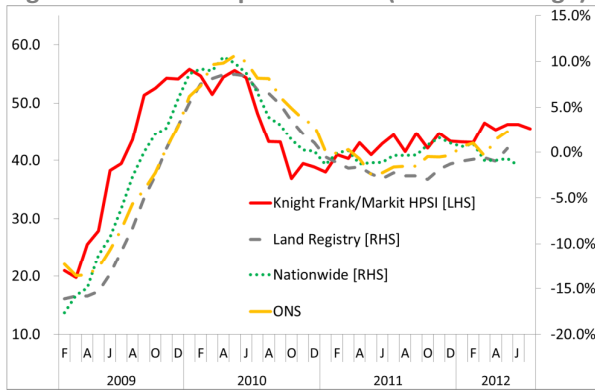
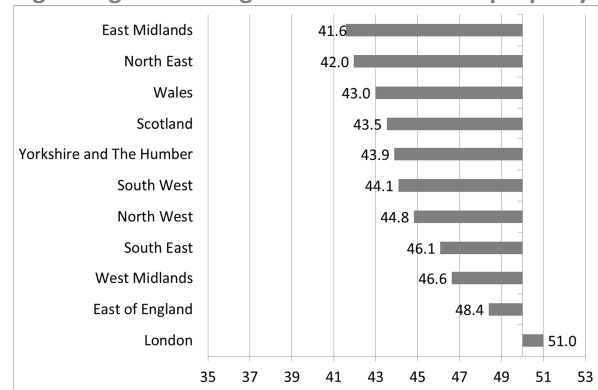


Fig 4: Regional change in current value of property



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	
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
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

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	
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
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

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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 YouGovplc 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.

IpsosMORI technical details (July survey)

Ipsos MORI interviewed 1500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 13th - 16th July 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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