

News release: Embargoed until 00:01 Friday 16 September 2011

Knight Frank/Markit House Price Sentiment Index (HPSI)

House prices falling as ‘squeezed middle’ feel the pain

Key headlines for September

- UK house prices are perceived to have fallen for the 15th consecutive month in September, but at the slowest pace since July last year
- Expectations for house price growth over the next 12 months rose to the highest level in over a year
- Households in the South East and London are most upbeat about the prospects for house prices, while those in the East Midlands are gloomiest
- Households earning between £23,000 and £34,500 expect house prices to fall over the next year while those on higher and lower incomes expect prices to rise

Change in current house prices

Knight Frank/Markit’s September House Price Sentiment Index (HPSI) shows that the pace of house price declines eased in September, although prices are perceived to have fallen every month since July 2010.

The latest survey of 1,500 households showed that 21% believed the value of their property had

fallen since August, while 10% felt it had risen. This took the overall HPSI to 44.7, up from 41.5 in August and just above the 44.5 seen in July. Any figure under 50 indicates that prices are declining.

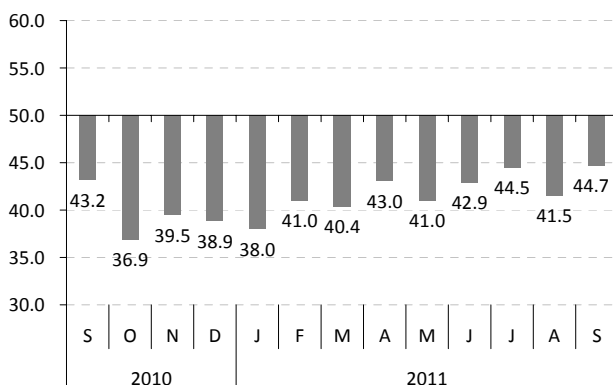
Lower prices were reported in all regions, with the sharpest declines in the East Midlands (38.8) and the North East (41.3) and Yorkshire (41.3). The regions showing the most resilience were London (49.6) and the East of England (47.5).

The sharpest change in the index was in Wales, where it rose to 45.6, up from 36.7 in August. However the September data echoed the more positive 45.3 reading seen in July.

A lead indicator

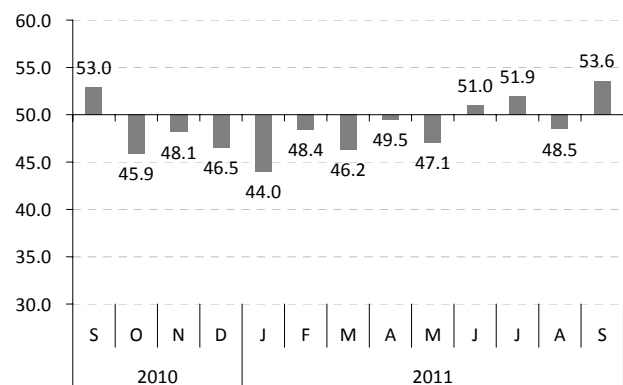
Since the inception of the HPSI the index has been a clear lead indicator for house price trends. Figure 3 shows that the index moves ahead of mainstream house price indices, confirming the advantage of an opinion based survey which provides a current view on household sentiment rather than historic evidence from transactions or mortgage market evidence.

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.

Outlook for house prices

Households were more upbeat about the future value of their home this month, with expectations for house price rises over the next 12 months moving into positive territory. The future HPSI rose from 48.5 to 53.6 in September, with a third of households expecting house prices to rise.

This measure has been above 50 for three of the last four months, marking an uplift in confidence after eight straight months of negative readings between October 2010 and May this year.

Regional outlook

As a further illustration of the “patchwork effect” of house prices across the UK, sentiment about future house price movements were starkly different in separate areas. Households in the South East (59) and London (57.4) expect the strongest price growth over the next year, while households in the East Midlands (47.9) and the North West (49.4) expect prices to fall. Households in Scotland (50.4) are expecting prices to remain broadly unchanged.

Overall in September, the index showed a positive outlook for nine regions and a negative outlook for two.

Household variations

Mortgage borrowers (53.3) were more upbeat about property price rises than those who own their home outright (48.7). But expectations for property price rises over the next 12 months were highest among those renting from private landlords, with a reading of 56.6.

Wealthier households were the most optimistic about house prices. Those earning £58,000 a year or more expect prices to rise over the next year, with the index for this income bracket rising from 59 in August to 60.2 this month. All households earning less than £58,000 expect prices to rise except those with an annual income of between £23,000 and £34,500 a year who expect prices to fall (48.6). This is the third consecutive month the index for households in this income bracket has been in negative territory. They are also among the most downbeat about how their property value has fared over the last month.

Sentiment about future house prices rose among public sector workers, moving into positive territory (50.3) for the first time since June. But expectations for future house price growth are stronger among those working in the private sector, with the index rising from 51.8 in August to 53.2 this month. Those working in the media, culture and entertainment sector are the most optimistic about house prices (64.6), followed by those in the utilities, engineering and transport sectors (57.5).

Analysis

Gráinne Gilmore, head of UK residential research at Knight Frank, commented: “The pick-up in sentiment, especially in the future HPSI, coincides with stronger signals from the Bank of England that interest rates are set to remain at ultra-low levels for a year or more. This is likely to have boosted confidence, especially among homeowners who have variable rate mortgages and buyers with deposits who can clinch new mortgage deals at historically low rates.

“The divide between the experience of high earning households and those on more modest incomes is also reflected the split in the property market between prime property, specifically in London, and the rest of the mainstream UK market. Prime property prices in London have “decoupled” from the rest of the mainstream UK market, rising by 35% since the post-credit crunch slump.

“There is also quite pronounced evidence of the “squeezed middle” – a phenomenon which has been frequently referred to as a side-effect of recent economic developments and tax changes. It is notable that households which have incomes around the national average salary of £26,000 a year are the only group which expect the price of their property to decline over the next 12 months, perhaps partly reflecting the increasing financial challenges they face.

“While the bounce back in future HPSI is unlikely to signal a sudden upturn in house prices, it indicates that prices are likely to stay stable, “bumping along the bottom” in line with the monthly volatility we have seen in recently. But if

the trend in the future HPSI is maintained in months to come, it could signal an underpinning of confidence in the market, which will in turn help support prices.

“The geographical differences across the UK are clearly illustrated in the data. The North/South divide is pronounced, and it is perhaps not surprising that households in the midlands and some northern English regions, which are set to be among the hardest hit by the public sector spending cuts are gloomier about the outlook for house prices.

Chris Williamson, Chief Economist at Markit said: “The Knight Frank/Markit HPSI adds a unique layer of information on the UK housing market, revealing what people think is happening to the value of their properties right now and in the future.

“This information is useful for many reasons. The buoyancy of the outlook for house prices in early-2010, for example, helped fuel a revival in consumer spending as homeowners perceived the value of what is typically their largest asset to be on the rise. The reverse occurred earlier this year, as worries about the economy and widespread job insecurity led to a downturn in views on house prices. Consumer spending moved into decline as a result. The belief that house prices will fall also meant fewer people put their properties onto the market, resulting in low transaction numbers.

“The uptick in the outlook for house prices in August therefore provides a glimmer of light that prices may start to rise again, presumably supported by increasing signs that interest rates will stay low for longer, and that more properties may come on to the market.”

Ends

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

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

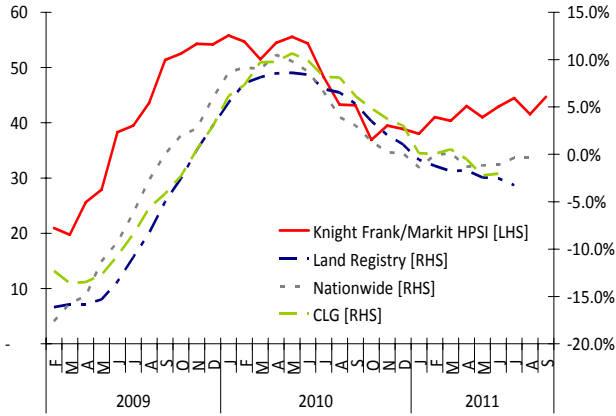


Fig 4: Regional change in current value of property



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	
Sep-10	43.2	42.5	41.9	43.2	41.3	41.2	41.8	45.1	44.7	42.8	39.5	46.9
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

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	
Sep-10	53.0	48.4	54.3	47.9	46.7	52.9	56.8	55.8	53.8	51.9	49.7	56.6
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

For further information, please contact

Knight Frank

Rosie Cade, Residential PR Manager
rosie.cade@knightfrank.com
+44 20 7861 1068, +447500 033 488

Gráinne Gilmore, Head of UK Residential Research
grainne.gilmore@knightfrank.com,
+44 20 7861 5102, +44 7785 527 145

Markit

Rachel Harling, Corporate Communications
rachel.harling@markit.com
+44-20-7064-6283

Chris Williamson, Chief Economist
chris.williamson@markit.com
+44-20-7260-2329

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.

About Knight Frank

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Knight Frank, operate from 209 offices, in 47 countries, across six continents. More than 6,840 professionals handle in excess of US\$755 billion (£521 billion) worth of commercial, agricultural and residential real estate annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit www.knightfrank.com.

For the latest news, views and analysis on the world of prime property visit Knight Frank's new website Global Briefing at <http://globalbriefing.knightfrank.com/>. And follow us on twitter @kfglobalbrief and @knightfrank.

About Markit

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

The intellectual property rights to the HPSI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit and the Markit logo are registered trade marks of Markit Group Limited.