

Knight Frank/Markit House Price Sentiment Index (HPSI) – July 2016

Sentiment dips but households still expect modest price growth

Key headlines for July 2016

- July's reading is the first indication of household sentiment on property prices since the EU referendum.
- Households across the UK perceive that the value of their home slipped in July.
- Respondents in nine of the 11 regions covered by the index believe prices fell over the course of the month.
- The future HPSI remains in positive territory - households expect the value of their home to rise over the next 12 months, but at the most modest rate since October 2012.
- Households in the South of England are more confident about price rises than those in the North of England, Scotland or Wales.

Change in current house prices

Households across the UK perceive that the value of their home fell in July, according to the latest House Price Sentiment Index (HPSI) from Knight Frank and IHS Markit.

This is the first time the HPSI has fallen below 50, the index reading that points to no change in prices, since February 2013. July's reading is the first indication of household sentiment on

property prices since the EU referendum with households across all price bands and tenures surveyed between the 14th and 18th of July.

Some 11.2% of the 1,500 households surveyed across the UK said that the value of their home had risen over the last month, while 14.6% said that prices had fallen. This resulted in a HPSI reading of 48.3 (see figure 1).

Any figure over 50 indicates that prices are rising, and the higher the figure, the stronger the increase. Any figure below 50 indicates that prices are falling.

July's reading was a decrease from the 59.7 recorded last month and significantly below the peak of 63.2 recorded in May 2014. The sharp drop month-on-month was amplified by the resilience of the index ahead of the EU vote.

Indeed, the average HPSI reading in the three months prior to July was 60.3.

Households in all regions, barring the South East (50.2) and the East of England (50.2) perceived that the value of their home dipped in July, with the biggest loss of momentum coming in London (49.5)

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



A reading of 50 equates to no change, above or below representing growth or decline respectively

from 69.6 in June). This was the first time that households in the capital perceived that house prices had fallen since October 2012.

The full regional breakdown is shown in the tables on page 3.

A lead indicator

Since the inception of the HPSI, the index has been a clear lead indicator for house price trends. Figure 2 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 1), which measures what households think will happen to the value of their property over the next year, fell to 50.3 in July from 67.7 in June.

This is the lowest reading recorded by the index since October 2012, indicating that households expect more modest rises in the value of their home than any time in the intervening years.

However, while the sentiment index has fallen, the expectation is still for positive, albeit modest, growth over the next 12 months.

There remain regional variations in future house price sentiment, mirroring trends in the wider housing market. Londoners are the most confident that prices will rise over the next year (56.3) followed by those in the South East (54.5) and East of England (53.2).

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

“The impact of uncertainty in the wake of the Brexit vote is clear from the HPSI index reading for July, especially in light of the relative strength of sentiment in the run-up to the vote. Although there has been a marked drop in the index, the readings are hovering around the ‘no-change’ mark, similar to levels in 2012/2013. As well as geographical variations, there are wide differences

in expectations depending on age-groups, with those aged over-55 expecting the value of their home to dip over the next 12 months as well as those aged 18 to 24. All other age-groups expect prices to rise modestly.”

Tim Moore, senior economist at IHS Markit, said:

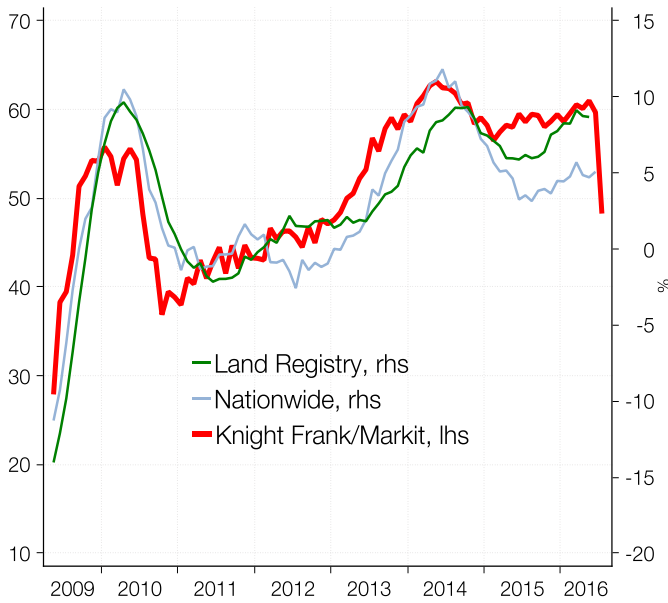
“The surge in economic uncertainty after the EU referendum weighed heavily on UK house price sentiment during July. The current prices index signalled the greatest month to month loss of momentum for at least seven-and-a-half years. Despite a sizeable fall since June, the latest reading signalled that house price sentiment was at a level last seen in early 2013 and only marginally downbeat overall.

“Households across all UK regions also indicated a sharp recalibration of their property price expectations for the next 12 months, led by those living in London and the South East. Before the EU referendum, more than five times as many UK households (43%) expected a year-ahead rise in property values as those that forecast a reduction (8%). By contrast, there is now a fairly even split between individuals expecting a rise in property values (26%) and those anticipating a decline over the next 12 months (23%).

“While it is too early to evaluate the full impact of the EU referendum on the UK property market, it is already clear that heightened uncertainty has cast a shadow over household sentiment. At the same time, fundamental imbalances between housing supply and demand have not changed materially, while lending conditions remain supportive. Nonetheless, a sharp jolt to consumer confidence in July has impacted swiftly on UK households’ perception of their property value, and this is also a signal that price expectations could remain highly sensitive to economic and political developments over the months ahead.”

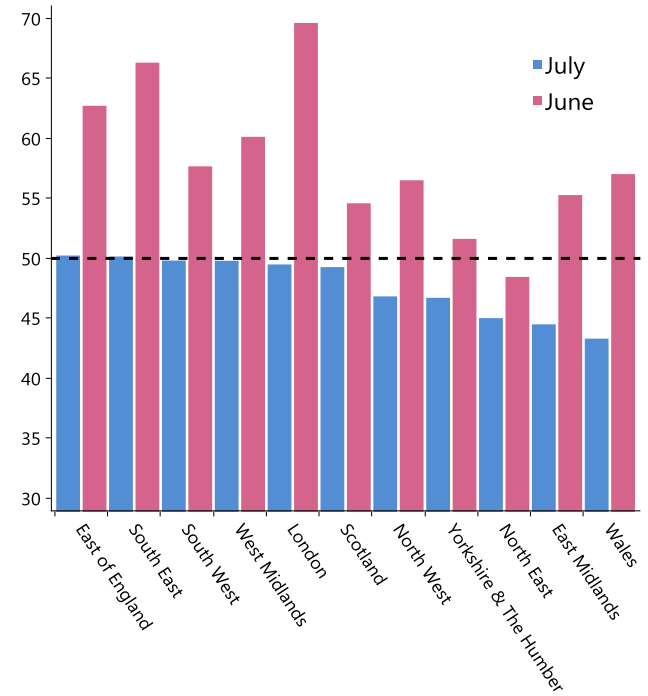
Knight Frank/Markit House Price Sentiment Index (HPSI) – Data Summary

Fig 2: Current HPSI vs house price indices (12-month change)



Source: Knight Frank Research

Fig 3: Regional variations in HPSI (July 2016 vs June 2016)



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-15	58.6	51.6	55.1	57.4	54.9	56.0	62.9	69.6	61.0	54.2	53.7	55.4
Aug-15	59.5	54.5	55.3	60.9	52.8	60.5	61.8	63.4	64.3	63.4	50.6	55.3
Sep-15	59.3	52.0	55.6	54.0	55.4	57.8	66.3	66.4	63.1	60.6	54.3	55.1
Oct-15	58.1	52.0	51.8	52.9	55.2	51.2	63.5	69.0	64.3	58.0	52.9	54.0
Nov-15	58.7	52.6	53.4	51.3	57.8	54.6	62.2	65.7	66.4	60.1	56.7	53.3
Dec-15	59.4	50.0	54.7	57.2	58.5	58.9	58.5	68.7	65.4	58.1	55.5	54.5
Jan-16	58.7	53.3	51.3	54.0	52.3	60.7	62.8	68.1	64.3	57.2	53.8	54.8
Feb-16	59.6	53.0	55.5	57.5	60.9	56.5	62.3	68.1	61.9	60.9	58.6	51.7
Mar-16	60.5	56.4	54.0	57.1	56.4	55.1	66.3	71.7	67.4	59.8	54.2	53.3
Apr-16	60.1	52.7	56.0	58.0	58.8	59.2	62.4	70.0	65.6	60.7	53.7	50.1
May-16	61.0	52.5	56.3	58.5	58.6	53.4	64.6	70.8	66.9	59.4	60.5	56.9
Jun-16	59.7	48.5	56.5	51.6	55.3	60.1	62.7	69.6	66.3	57.7	57.0	54.6
Jul-16	48.3	45.0	46.8	46.7	44.5	49.8	50.2	49.5	50.2	49.8	43.3	49.3

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-15	70.2	56.6	67.4	66.5	65.0	71.0	72.5	78.4	78.8	66.4	62.8	66.9
Aug-15	69.5	60.8	65.9	70.0	61.8	67.8	67.8	76.2	77.0	71.8	63.8	67.1
Sep-15	70.0	57.7	65.6	63.2	65.8	67.2	79.3	74.1	76.0	74.7	61.4	69.6
Oct-15	68.7	53.6	62.1	62.0	67.1	63.2	74.8	78.4	75.8	72.1	60.7	66.9
Nov-15	70.3	60.5	63.8	63.0	68.2	66.0	74.6	78.3	82.9	68.9	63.4	65.4
Dec-15	70.3	60.1	67.5	68.5	62.7	72.0	74.5	77.9	76.7	66.8	64.9	65.8
Jan-16	70.5	61.9	62.3	66.4	65.4	71.3	81.1	79.1	76.1	71.6	64.5	61.8
Feb-16	69.8	60.6	64.1	64.4	67.4	67.3	72.8	77.8	78.7	74.1	62.5	62.0
Mar-16	71.6	61.4	63.6	72.1	71.5	66.4	80.3	78.9	81.0	71.6	62.2	61.4
Apr-16	68.8	57.6	62.8	69.4	66.6	67.9	68.4	77.2	79.3	71.7	59.6	57.2
May-16	70.3	61.8	61.5	66.0	66.3	63.3	77.9	78.2	79.5	74.8	67.6	62.3
Jun-16	67.7	50.4	62.4	56.8	63.3	67.1	71.0	78.2	76.0	72.8	66.9	60.8
Jul-16	51.3	48.9	47.1	46.9	46.4	52.4	53.2	56.3	54.5	51.7	48.2	51.9

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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 IHS 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 IHS 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)

IpsosMORI interviewed 1,500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 14th and 18th July. 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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