

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

Slight moderation in household sentiment on house prices

Key headlines for October 2016

- Households across the UK perceive that the value of their home rose in October.
- Respondents in 10 of the 11 regions covered by the index believe prices increased over the course of the month.
- In Scotland households perceived the value of their home was unchanged compared to September.
- The future HPSI fell slightly in October, but households in all regions remain confident that the value of their home will rise over the next 12 months.
- Households in the South West are the most confident about price rises, followed by those in the South East and London.

This was the third consecutive month that the reading has been above 50 following the index's post-referendum low in July.

Some 18.4% of the 1,500 households surveyed across the UK said that the value of their home had risen over the last month, while 7% said that prices had fallen. This resulted in a HPSI reading of 55.7 (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.

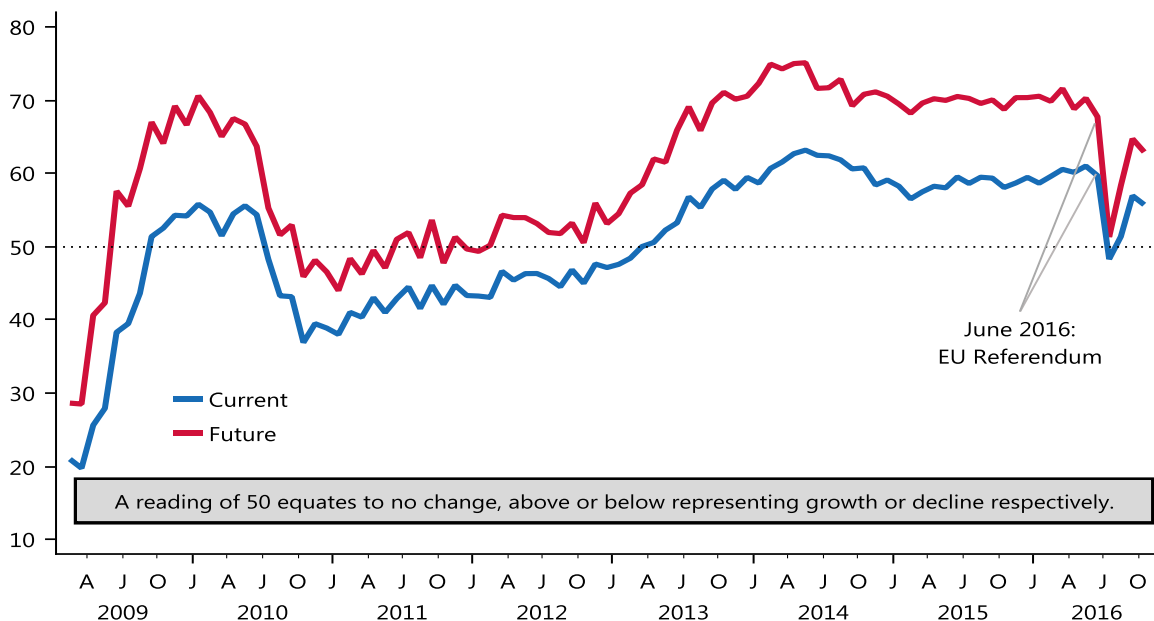
October's reading was a slight decrease from the 56.9 recorded in September and its notable that the index remains significantly below its peak of 63.2 recorded in May 2014. However, October's figure is higher than the post-referendum average HPSI reading of 53.1 reflecting the general bounceback in sentiment which has been seen since the vote.

Change in current house prices

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

Households in 10 of the 11 of the regions covered by the index perceived that the value of their

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



Source: Knight Frank Research / IHS Markit

property rose in October, with Londoners (60.9) reporting the biggest rise, mirroring the wider trend in the housing market. They were followed by those in the South East (59.4) and East of England (58.1). Households in Scotland perceived no change in the value of their homes over the course of the month.

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, also slipped slightly in October to 62.9 from 64.7 the previous month.

While households are still positive, they are expecting more modest growth in property prices over the next 12 months than they were in September.

There remain regional variations in future sentiment, with households in the South of England comfortably more confident that prices will rise than those in the North, Scotland and Wales.

Since the recent index low immediately following the EU referendum, households in the South West have seen the biggest sustained rebound in terms of their expectations for future growth, from 51.7 in July to 70.8 in October (figure 3).

Housing market activity

Some 6% of households are planning to buy a property in the next year, a slight rise on the 5.8% who said the same thing in September.

On a slightly longer-term basis, some 13% of households said they were planning to buy in the next 2 years. This figure rises to 24.5% for those looking to buy at some point within the next 5 years.

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

“The index has dipped slightly in October, but the significant uptick in sentiment since the vote to leave the EU is highlighted by the data. This month, some 12% of households said they expected the value of their home to fall over the next 12 months, down from the 23% seen in the month after the Brexit vote. Some 18% expect a rise in prices, still some way below the peak of 30% back in May 2014, but significantly above the reading of 11.2% in July.

“Another signal of households’ rising confidence is that the proportion of those who would like to buy a home within the next 12 months has risen to 6%, up from 4.6% in October last year.

“The housing market across the UK as a whole is being underpinned by lack of supply and ultra-low mortgage rates.”

Tim Moore, senior economist at IHS Markit, said:

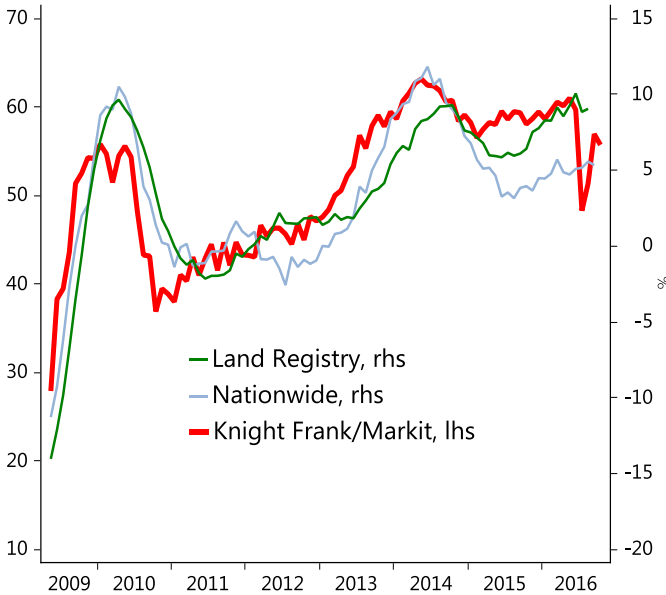
“The key message from October’s survey data is that UK housing market sentiment has recovered strongly this autumn from the post-referendum jitters seen during the summer.

“There were signs of resilience across all UK regions, with households in the south of England most confident that property values will rise over the next 12 months.

“Lower interest rates and stable mortgage availability have acted as shock absorbers for household sentiment in recent months. However, expectations for house price growth are softer than in the first half of 2016, suggesting that affordability constraints and Brexit uncertainty are still putting the brakes on price momentum.”

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 / IHS Markit

Fig 3: Regional change in future HPSI compared with July 2016

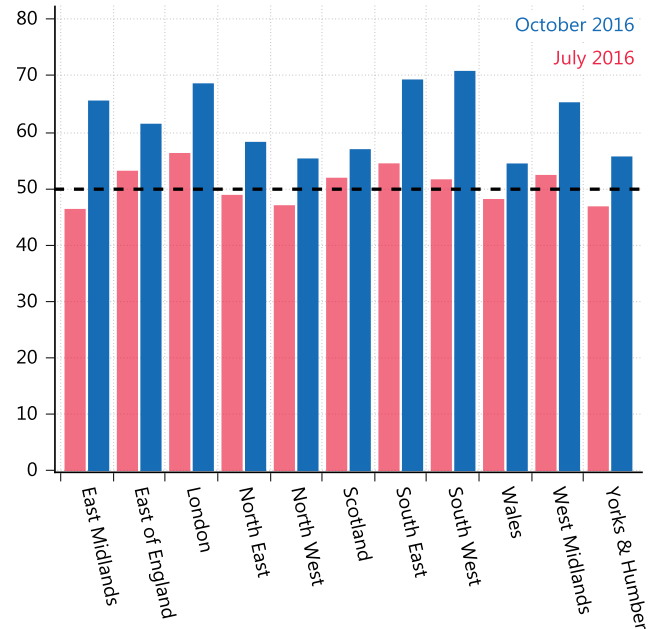


Figure 3: Regional change in House Price Sentiment (current and future)

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-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 |
| Aug-16 | 51.4 | 44.3 | 50.8 | 47.3 | 49.0 | 50.2 | 58.5 | 53.1 | 54.5 | 55.0 | 48.4 | 45.6 |
| Sep-16 | 56.9 | 54.2 | 52.9 | 52.2 | 58.1 | 55.7 | 59.9 | 63.0 | 60.4 | 57.7 | 53.2 | 51.8 |
| Oct-16 | 55.7 | 51.4 | 51.9 | 53.0 | 54.5 | 56.3 | 58.1 | 60.9 | 59.4 | 57.9 | 51.2 | 50.0 |

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-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 |
| Aug-16 | 58.3 | 54.5 | 52.7 | 49.9 | 55.7 | 55.7 | 68.3 | 61.5 | 63.0 | 64.7 | 56.9 | 52.2 |
| Sep-16 | 64.7 | 61.5 | 62.4 | 58.7 | 66.3 | 58.3 | 64.6 | 71.0 | 75.2 | 65.8 | 56.3 | 57.9 |
| Oct-16 | 62.9 | 58.3 | 55.3 | 55.7 | 65.6 | 65.3 | 61.5 | 68.6 | 69.3 | 70.8 | 54.5 | 57.0 |

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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 (September survey)

IpsosMORI interviewed 1,500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 12th and 16th October. 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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