

MIXED MESSAGES ON THE MARKET

A divergence in house price indices are giving a mixed picture of the market, yet there is broad agreement that stock levels dipped over the summer. In prime central London, price growth continued to ease in August although there is a significant divergence in price performance between local markets.

Key facts September 2015

UK house prices rose by 0.3% in August, and are up 3.2% year-on-year

Prime central London prices are up 1.7% on the year

Prime country home prices climbed 2.30% to the end of Q2, with outperformance in urban markets such as Winchester, which has seen growth of 6.3%

Households expect more price growth, although market remains regionalised, according to latest House Price Sentiment Index



GRÁINNE GILMORE
Head of UK Residential Research

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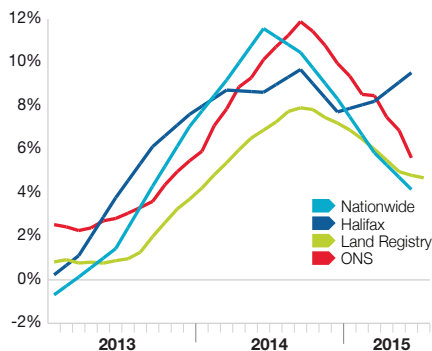
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UK housing market and economic overview

House price indices

Annual % change, 3-month moving average



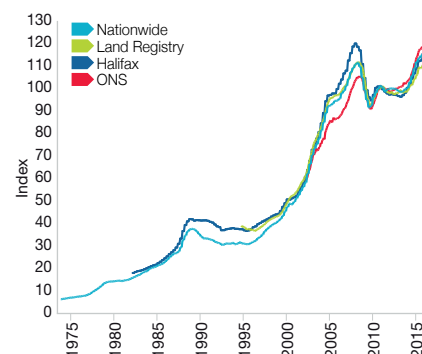
Source: Knight Frank Research / Macrobond

House price indices, which track the value of homes across the country, using a variety of data and methodologies, have been painting a slightly different picture of the market in recent months as the chart above shows.

While Halifax shows an uplift in prices over the summer, this is not reflected so emphatically in Nationwide data, which, like Halifax, monitors mortgage approval data. The last significant divergence between these two ‘similar’ indices in

Longer term trends

House price indices (indexed 100 = 2010)



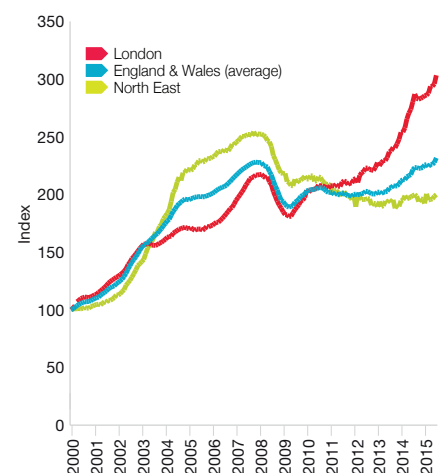
Source: Knight Frank Research / Macrobond

the 1990s was explained by the Bank of England as probably occurring because of the different ways these indices are “mix adjusted” to take account of the different characteristics of houses bought and sold in any one month. The ONS, which looks at a larger selection of mortgage data also indicates a continued slowing in price growth to date this year, as does the Land Registry, which reflects all sales completed in England and Wales.

Over the long run, it is possible to see that the indices broadly move together, but the recent divergence is attracting attention as the market heads into the busier Autumn period. The question for all considering a sale or a purchase is “is it a seller’s or buyer’s market?”. The answer is not clear-cut.

How price trends differ

House prices (indexed 100 = 2000)



Source: Knight Frank Research / Macrobond

While UK average house prices are a useful broad-brush indication of how the market is performing, they do not accurately reflect local markets. The dynamics of the residential market in one town may differ from another town just 10 or 20 miles down the road, not to mention the dynamics implied by national average data.

Stock levels fall to record low

Average stocks of homes on agents' books (RICS)

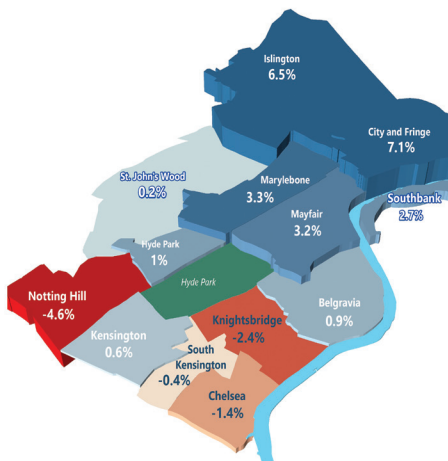


Source: Knight Frank Research / Macrobond

One factor which is not disputed is that there is shortage of stock on the market. RICS, which monitors surveyors around the country, reports that the level of stock available for sale fell to a new low in August. There is some expectation that this may pick up in the Autumn period, but this lack of supply coming into the market may be exerting upwards pressure on prices.

Prime markets

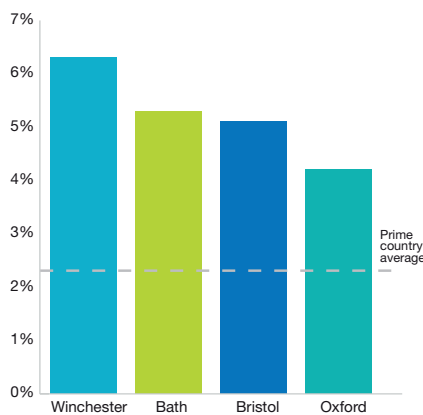
Price growth in prime central London by area in the year to August 2015



The pace of growth in the prime central London market has eased in recent months, but trends across this relatively small market are still distinct as the map shows. The top end of the London market is still adjusting to the changes to stamp duty introduced in December last year, and this theme is examined in more detail in the latest London Residential Review and in the Super-Prime London Report.

City outperformance

Annual change in prime property values (Q2 2014 - Q2 2015)



Source: Knight Frank Residential Research

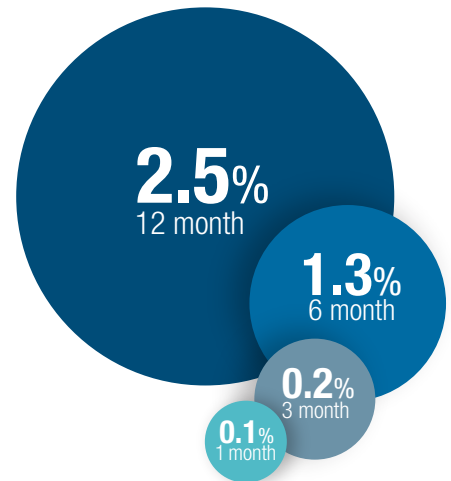
The prime country market also reveals the localised nature of the market, with average prime country home prices up 2.3% on the year to the end of Q2, but some markets are showing much higher growth, such as Winchester with 6.3% annual growth, Bristol with 5.3% growth and Bath with 5.1%.

Rental market

Prime central London rents rose 2.5% in the year to August, but again, even the relatively small prime central London market is localised, with rents in Kensington up 4.3% year on year, compared to a 1.1% decline in Knightsbridge.

Rental value growth in prime central London

% change over different time periods



Source: Knight Frank Residential Research

Across the UK, rents rose by 2.5% in the year to the end of June, although mainstream rents across Greater London rose 3.8%, according to the ONS. There is more on UK rental trends in the latest Private Rented Sector Update.

RESIDENTIAL RESEARCH

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

PRESS OFFICE

Jamie Obertelli
+44 20 7861 1104
jamie.obertelli@knightfrank.com



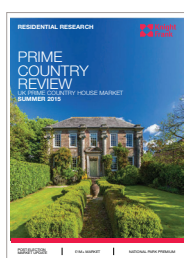
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