

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

Household sentiment remains strong despite uncertainties

Key headlines for May 2016

- Households in all UK regions perceive that the value of their home rose in May
- Londoners perceived the strongest rate of price growth over the course of the month, followed by those in the South East
- Households in all UK regions expect house prices to rise over the next 12 months, with the strongest growth expected by households in the South East
- Both current and future sentiment on house prices picked up in May compared to April
- Some 5.4% of households said that they planned to buy a property in the next 12 months, up from 5.0% in April

This is the thirty-eighth consecutive month that the reading has been above 50.

Some 25.6% of the 1,500 households surveyed across the UK said that the value of their home had risen over the last month, while 3.6% said that prices had fallen. This resulted in a HPSI reading of 61.0 (see figure 1).

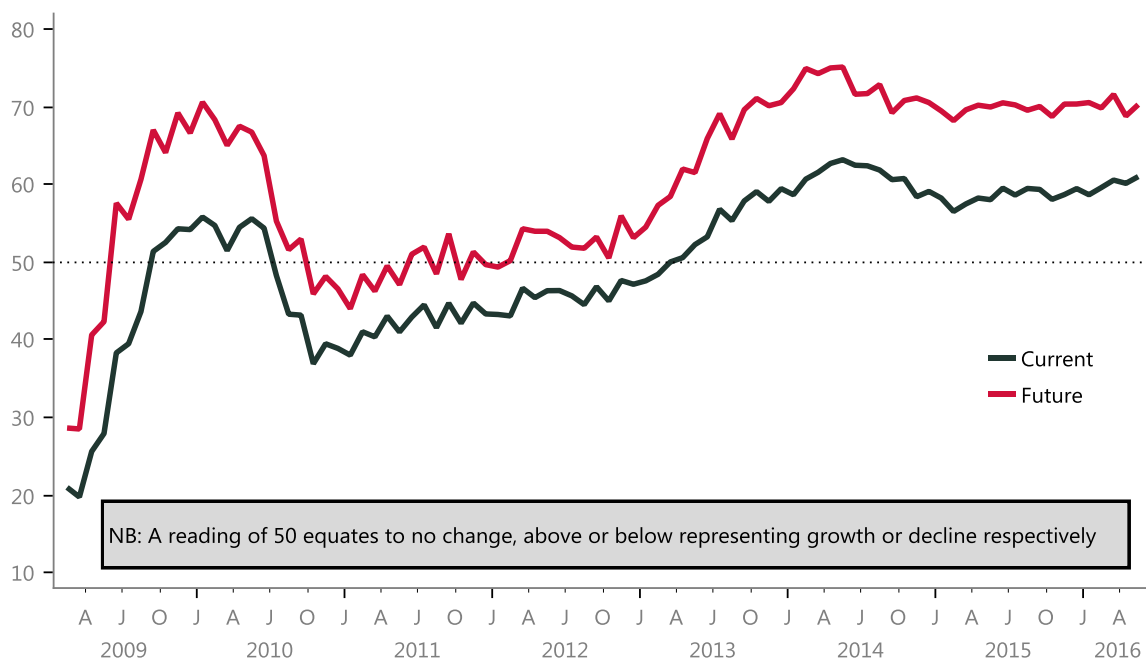
Any figure over 50 indicates that prices are rising, and the higher the figure, the stronger the increase. Any figure below 50 indicates that prices are falling.

Although May's reading was a slight increase on the 60.1 recorded in April, it remains below the peak of 63.2 reached two years previously in May 2014. While sentiment picked up over the course of the month, it remains in line with the longer-term trend. On a three-month rolling basis the HPSI reading was 60.6 compared to 59.2 for the comparable period three months previously.

Change in current house prices

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

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



Source: Knight Frank/Markit

Households in every region perceived that the value of their home rose in May, led by those living in southern regions. The full regional breakdown is shown in the tables on page 3.

Meanwhile, there was a notable pick-up in perceived house price growth among those aged 18-24 with the index rising to 57.7 in May, up from 52.6 in April, potentially reflecting affordability concerns among this age group. Conversely, household sentiment softened among those aged over 55 month-on-month, although such individuals remain the most bullish when it comes to perceived price growth.

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, rose slightly in May to 70.3, from 68.8 in April.

Households in the South East were the most confident that prices will rise in the next 12 months (79.5), followed by those in London (78.2) and the East of England (77.9).

Expectations that interest rates will remain low for longer, as shown by Markit's UK Household Finance Index, appear to have helped offset any concerns over the wider economic backdrop. Around 46% of households expect rates to rise in the next 12 months, down sharply from a peak of 78% in August 2015.

Housing market activity

Some 5.4% of UK households said they planned to buy a property in the next 12 months, up from 5.0% in April.

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

"The steadiness of the headline house price sentiment index during such political uncertainty over the EU is a reflection that the fundamentals of the market remain unchanged – there is still an imbalance between demand and supply of housing, and for those with access to deposit payments, mortgage rates are still near record lows.

"However, there has been some softening in sentiment among those aged 55 and over – the age-group who have the largest equity stake in the UK housing market. While the sentiment reading for this group is still one of the highest, indicating they expect prices to rise, there has been a notable fall from last month, indicating that the current economic and political climate is affecting some corners of the market."

Tim Moore, senior economist at Markit, said:

"House price sentiment not only rose in May, but moved above the 2016 peak seen as stamp duty changes approached during March. As a result, the balance of UK households reporting a rise in their property value now stands at its highest since August 2014.

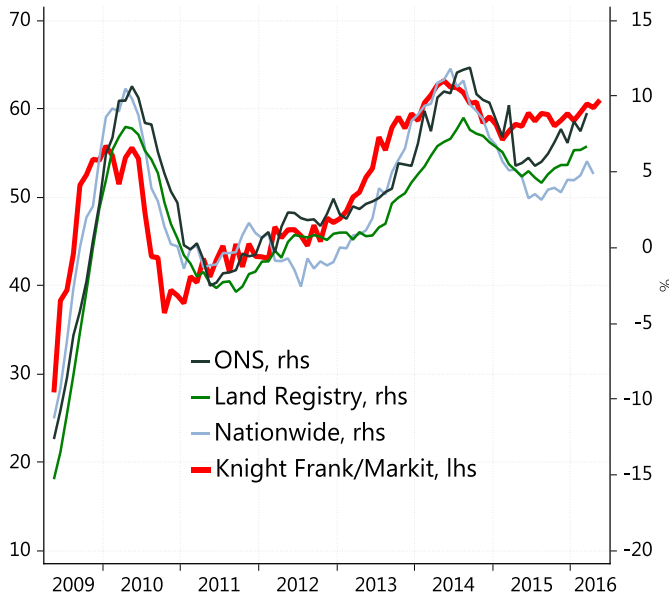
"At first sight, the strength of UK house price sentiment in May is surprising given the weaker economic backdrop, expected drop off in buy-to-let transactions this quarter and uncertainties related to the EU referendum.

"However, headwinds to buyer confidence appear to have been offset by favourable undercurrents for house prices elsewhere. In particular, the risks of an impending interest rate rise now seem a more distant prospect and ultra-low mortgages have become more widely available.

"Coupled with the perception of a long-term shortfall in housing supply, the latest survey highlights that expectations of rising property values are well entrenched among UK households."

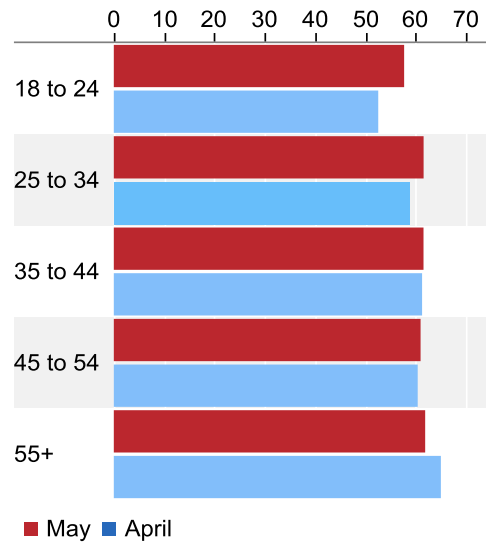
Knight Frank/Markit House Price Sentiment Index (HPSI) – Data Summary

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



Source: Knight Frank Research

Fig 3: Monthly change in perceived current house price growth, by age



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	
May-15	58.0	53.3	53.8	53.5	56.8	55.3	61.2	64.8	61.6	60.0	51.6	56.1
Jun-15	59.5	53.0	51.4	56.4	56.8	56.9	65.7	66.6	64.0	61.6	53.7	57.7
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

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	
May-15	70.0	62.7	61.9	67.4	68.1	68.0	77.8	77.7	73.5	71.8	64.0	65.8
Jun-15	70.5	67.3	63.2	67.9	69.3	66.6	75.0	78.2	78.3	72.3	60.0	64.3
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

Knight Frank

Jamie Obertelli, PR Manager
Jamie.obertelli@knightfrank.com
+44 20 7861 1104

Gráinne Gilmore, Head of UK Residential Research
grainne.gilmore@knightfrank.com
+44 20 7861 5102
+44 77 8552 7145

Oliver Knight, Senior Analyst
oliver.knight@knightfrank.com
+44 20 7861 5134
+44 74 6872 7562

Markit

Joanna Vickers, Corporate Communications
Telephone: +44 20 7260 2234
Email: joanna.vickers@markit.com

Tim Moore, Senior Economist
tim.moore@markit.com
+44 14 9146 1067

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 (May survey)

IpsosMORI interviewed 1,500 adults aged 18-64 across Great Britain from its online panel of respondents. Interviews were conducted online between 11th and 15th May. 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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