

UK Residential Market Update

April 2023

Knight Frank's monthly snapshot of the health of the UK housing sector

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UK property data presents mixed picture but stability returns

Mortgage approvals, a leading indicator of future activity, registered their first increase in February for six months.

However, at just over 43,500, volumes remain considerably down on the 66,700 average monthly approvals seen in 2019.

The strength of the recovery as we move further from the disruption caused by the mini-Budget last September remains to be seen.

However, the latest quarterly survey from the Bank of England confirmed that lenders are expecting a pick-up in demand for mortgages during the next three months.

After reporting falling demand in Q4 2022 and again in Q1 2023, a sizable number of respondents anticipate that demand for both re-mortgaging and

house purchase will pick up during Q2.

It remained a mixed picture when it came to house price data and the direction of travel during March.

Nationwide said that average prices had declined for a seventh month in a row with a fall of 0.8%. This took the annual contraction to 3.1%, which was the largest decline since July 2009.

Meanwhile, Halifax found average prices increased by 0.8% in March, albeit this was a slowdown from an increase of 1.2% in February. The annual rate of change also slowed from 2.1% to 1.6% in March.

With the latest employment data for February proving robust - the unemployment rate remains historically low at 3.8% - household sentiment has continued to improve



43,500

First increase in mortgage approvals for six months.

Source: Bank of England

after turning negative at the end of last year.

According to the IHS Markit Household Sentiment Survey, the index score for future house price expectations (values in 12 months' time) climbed from 49.8 to 55.6 in March.

A score of 50 indicates no change. Figures above or below that indicate price growth or falls, with the higher the figure the stronger the expected change.

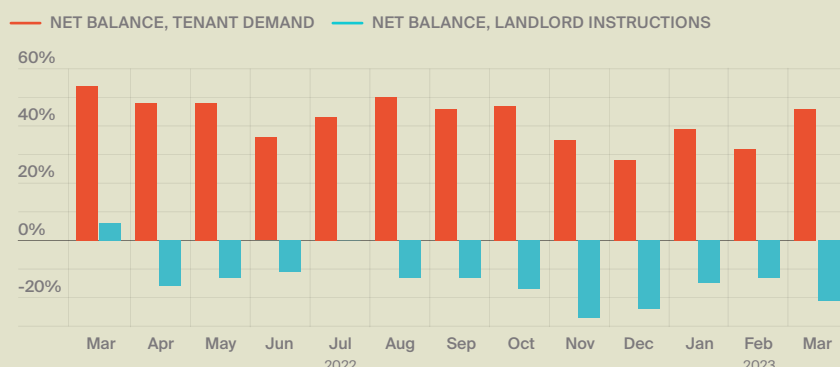
While key sales indicators remained subdued with new instructions and buyers both down, according to RICS, the letting market continues to see demand outstrip supply (see chart).

The balance of new instructions fell from -13% to 21% in March, meaning the measure remains firmly in negative territory with more respondents seeing a fall than an increase.

At the same time demand strengthened, up from +32% to +46% in March suggesting little respite for tenants facing price inflation and limited choice.

Despite this imbalance, landlords face both higher mortgage and

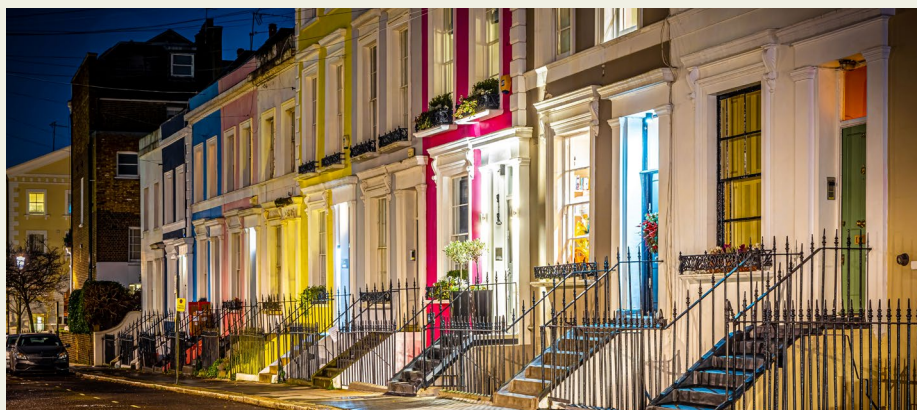
Fig 1: Demand outstrips supply in England and Wales



Source: RICS

maintenance costs. They also have the challenge of upgrading the energy efficiency of their properties, something that has left the sector facing a potential £17.9bn upgrades bill.

While still at consultation stage, proposed legislation would require rental properties to have an EPC rating of C or above by 31 December 2025 for new tenancies and by 31 December 2028 for all existing tenancies. Current regulation, in place since 2020, dictates all tenanted properties be rated EPC E or above, notwithstanding exemptions.



London sales market 'stable not spectacular'.

PRIME LONDON SALES

If you compare the 12-month period to February with the preceding year in London, a whole range of indicators show little change (in a market not averse to dramatic movements).

In March 2023, average prices were just 1% lower than three years ago, when the pandemic first struck. Over the last 12 months, the movement has been smaller (+0.5%).

The number of sales in the year to February was only 1.8% higher than the previous 12 months.

PRIME LONDON LETTINGS

In the three years since the pandemic struck, rental values have risen by 27% in prime central London (PCL) and by 23% in prime outer London (POL).

Supply dwindled while demand surged, which means tenants have struggled with surging rents and properties that were let out before being advertised.

The frenetic conditions of the last 18 months have calmed but annual rental value growth in March was still 16.9% in PCL and 15.2% in POL.

COUNTRY MARKET

Prime regional markets maintained momentum in February, suggesting a busy spring market ahead.

New instructions, prospective buyers and viewings outside of London were in line with the five-year average, as the relative bounce seen since a slow end to 2022 continued.

Meanwhile, market valuation appraisals, a leading indicator of future supply, were up 19.8% ahead of the traditionally busiest period for new listings in the spring.

PRICE CHANGE

	3-months to March 2023	Annual		3-months to Q4 2022	Annual
PCL sales	▼ -0.2%	▼ 0.5%	Prime Country House Index	▼ -0.9%	▼ 3.1%
POL sales	▼ 0.2%	▼ 2.4%	Edinburgh City Index	▼ 0%	▼ 8%
PCL lettings	▼ 2.7%	▼ 16.9%	Prime Scottish Index	■ 0%	■ 0%
POL lettings	▼ 2.0%	▼ 15.2%			

Source: Knight Frank Research

Change on previous period ■ no change ▲ up ▼ down

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