

# UK Residential Property Market Update

## October 2022

### *UK residential house price growth stalls in September*

The UK residential property market showed clear signs of a slowdown last month, ahead of a mini-budget that unsettled financial markets.

Following a negative reaction by financial markets to the government's growth plans, the cost of fixed-rate mortgages have climbed higher. The uncertainty continued last week with the sacking of chancellor Kwasi Kwarteng.

Consequently, we have revised our UK House Price Forecasts down (see chart) and expect mainstream prices to fall by 10% in 2023 and 2024 before returning to growth.

Both Halifax and Nationwide reported that monthly price growth had stalled in September, with the former reporting a contraction of 0.1% and the latter no change at 0%.

Both lenders said the annual rate of house price inflation had dropped to single digits in the month as a result. Halifax reported average growth had fallen from 11.4% in August to 9.9% in September. Nationwide said annual growth was 9.5% in September, down

from 10% a month earlier.

It came as RICS reported that the sales market continued to lose momentum.

New buyer enquires fell for a fifth month in a row according to its monthly sentiment survey, although limited supply continued to support prices.

New buyer demand recorded a net score of -38% last month and new instructions were -13%.

Historically, when demand has dropped faster than supply, UK house prices have fallen, said Capital Economics in a note issued to investors.

In contrast, the lettings market is set for further rental growth with

demand continuing to outstrip supply. A net balance of +42 of sentiment survey respondents saw tenant demand increase in the month, while a net balance of -13 saw a fall in landlord instructions (identical to last month).

While the IHS Markit House Price Sentiment Survey, where a score over 50 represents strengthening sentiment, remained in positive territory in September (it was compiled ahead of the mini-budget) both current and future house price expectations have now declined for three months in a row.

Some +56 of respondents said their home was worth more than a month ago (compared to +58 in August).

Asked what their home would be worth in a year's time, at +56 it was the lowest score since March 2021.

### **Prime London Sales**

The number of new prospective buyers in PCL and POL was 53% above the five-year average (excluding 2020) in September.

Supply has also been picking up after being subdued for most of last year. The

# 10%

Forecast cumulative fall in house prices during 2023 and 2024

Source: Knight Frank Research

number of new sales instructions was 22% above the five-year average and the number of offers accepted was up by 79%.

While we expect demand and price growth to come under pressure in coming months as mortgage rates remain high, there are no obvious signs yet.

Annual growth in PCL was 2.7% in September while the figure recorded in POL was 5.2%, both figures that have remained broadly the same for the past six months.

### Prime London Lettings

Stock levels remain low by historical standards in the lettings market, with the number of new properties coming to the market down by around a third compared to the five-year average (excluding 2020).

Meanwhile, the number of new



Offers surged in the London sales market in September as supply improved

prospective tenants registering with Knight Frank across London in September was 68% above the five-year average.

As a result of this imbalance persisting for longer than anticipated, we have revised up our rental value forecasts for 2022 and 2023.

Rental values grew by 18.6% in the year to September in Prime central London and by 15.4% in Prime outer London.

### The Country Market

The number of offers accepted outside of London hit its highest level for 20 weeks in the seven days after the mini-budget last month, as sellers became aware of rising interest rate expectations.

Transactional activity has been high throughout this year despite the end of the stamp duty holiday in 2021, with frustrated demand being increasingly matched by supply. Offers accepted were up 16% in the three months to September versus the five-year average.

The amount of property available to buy outside of London in September was at its highest level since January 2021. While the number of active applicants outside of London in the 12 months to September was unchanged on the previous year.

#### SALES MARKET FORECAST 2022-2026

	2022	2023	2024	2025	2026	5-YEAR CUMULATIVE
<b>UK</b>	6.0%	-5.0%	-5.0%	2.0%	4.0%	1.5%
<b>GREATER LONDON</b>	3.0%	-6.0%	-4.0%	3.0%	5.0%	0.5%
<b>PCL</b>	3.5%	-3.0%	0.0%	3.0%	4.0%	7.5%
<b>POL</b>	5.0%	-4.0%	0.0%	2.5%	2.5%	5.9%
<b>PRIME COUNTRY</b>	7.0%	-5.0%	-3.0%	3.0%	3.0%	4.6%

Source: Knight Frank Research.

Forecasts relate to average prices in the second hand market. New build values may not move at the same rate.

### Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



#### Chris Druce

Senior Research Analyst  
+44 20 7861 5102  
chris.druce@knightfrank.com



#### Tom Bill

Head of UK Residential Research  
+44 20 7861 1492  
tom.bill@knightfrank.com

**Knight Frank Research Reports are available at [knightfrank.com/research](https://knightfrank.com/research)**



Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. Important Notice: © Knight Frank LLP 2022 This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.