

UK Residential Market Update

October 2023

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

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September data indicates signs of stability for the UK housing market

After a volatile year that has seen the cost of borrowing climb, fall and climb again following the mini-Budget, September brought the first signs that the roller coaster ride may be at an end.

Swap rates, which are used by lenders to set the price of fixed-rate mortgages, levelled out ahead of the Bank of England's (BoE) decision to hold the UK interest rate at 5.25% in September (see chart).

The strength of the UK's employment market and strong wage growth has seen the BoE ratcheting

up interest rates to rein in inflation, however 14-consecutive increases appear to be having an impact.

Job vacancies in August dipped under one million for the first time since July 2021, and CPI core inflation, which includes wage growth, fell by more than economists expected, down from 6.9% in July to 6.2% in August.

It adds weight to the view that UK interest rates have peaked, with the BoE recently warning that the full impact of higher borrowing costs is still to be felt by households.



5.25%

Interest rates held in September after 14 consecutive increases.

Source: Bank of England

While current conditions remain challenging across the sales market, surveyors responding to RICS' September Sentiment Survey saw improved conditions ahead if rates are held.

The twelve-month sales expectations series returned a net balance of +3% (up from -5% in August), signalling more stability ahead.

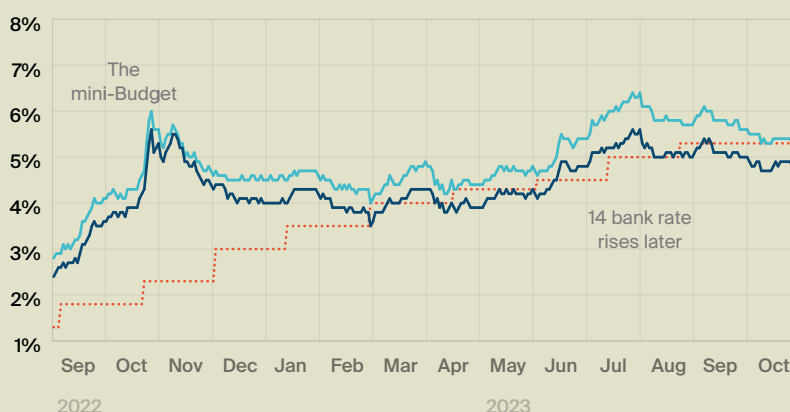
For now, activity in the UK residential property market remains subdued. Transactions nudged up 1% in August to 87,000 but remain 17% below 2022's monthly average.

There is little momentum with mortgage approvals for purchase, a leading indicator of demand, slipping 8% from 49,500 in July to 45,500 in August.

The reduction in demand is keeping downwards pressure on pricing. The three-month change to September in house prices was -0.8% according to Nationwide while the Halifax

Fig 1: Signs that UK interest rates have peaked

— 5-YEAR SWAP RATE — 2-YEAR SWAP RATE - - - OFFICIAL BANK RATE



Source: Knight Frank Research

registered a drop of 1.8%. The lenders put the annual change at -5.3% and -4.7%, respectively.

Ultimately, this year's volatility and the higher cost of borrowing are reasons that we have revised out forecasts for house prices. We now expect UK house prices to fall by 7% this year, more than our forecast of -5% in March. Next year, we expect prices to fall by 4% as the economy stabilises and sentiment improves.

Lettings (outside of prime London, see below) remained a story of demand outstripping available supply.

Data from Rightmove underlined this, with the average rental property across the UK receiving 25 enquiries from prospective tenants to letting agents in September. This is more than triple the eight received on average before the pandemic in 2019.



Central London is proving resilient

PRIME LONDON SALES

While the number of new prospective buyers in London rose 12% between August and September as this year's autumn market began, it was half the increase experienced in the previous two years.

Essentially, the prime London property remains in a holding pattern. It has not experienced the extent of price declines seen across the UK but neither have the capital's more affluent postcodes been immune from the deteriorating economic sentiment.

Prime central London experienced a 1.7% fall in annual values in September, with prime outer London experiencing a decrease of 1.4%, a performance ahead of the mainstream market.

PRIME LONDON LETTINGS

The downwards trajectory for annual rental value growth in prime London markets continued in September as supply increased and demand held steady.

The number of new prospective tenants in prime London postcodes was flat compared to the five-year average in the third quarter of this year, our data shows. Meanwhile, listings in PCL were only 12% down, according to Rightmove, a figure that compares to decline of 37% in the same quarter last year.

Annual rental value growth in prime central London was 11.2% in September. In prime outer London, an increase of 10% means that next month we are likely to be back in single digits.

COUNTRY MARKET

Prime UK regional prices suffered their largest annual fall since the global financial crisis in the third quarter of 2023, as high borrowing costs and weak sentiment curbed demand.

Prices declined 6.1% in the year to September, which was the biggest annual drop since a 13.4% fall in Q3 2009.

Despite this, prime regional prices remain 12.2% higher than they were in June 2020, the first full month after the re-opening of the property market due to Covid.

Reflecting the hesitancy felt by buyers, offers made were down by 14% in Q3 versus the five-year average (excluding 2020) and exchanges fell by 9%.

PRICE CHANGE

	3-months to September 2023	Annual		3-months to Q3 2023	Annual
PCL sales	▼ -0.7%	▼ -1.7%	Prime Country House Index	▼ -2.1%	▼ -6.1%
POL sales	▼ -0.9%	▼ -1.4%	Edinburgh City Index	▼ -1.2%	▼ -3.2%
PCL lettings	▼ 2.6%	▼ 11.2%	Prime Scottish Index	▼ -3.7%	▼ -3.7%
POL lettings	▼ 2.5%	▼ 10%			

Source: Knight Frank Research

Change on previous period ■ no change ▲ up ▼ down

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