UK Residential Market Update

Q1 2025

The first cracks have appeared in the UK housing market since the Budget in October. Rising mortgage costs have been magnified by the bond market sell-off in the US as Donald Trump begins his second term as US President.

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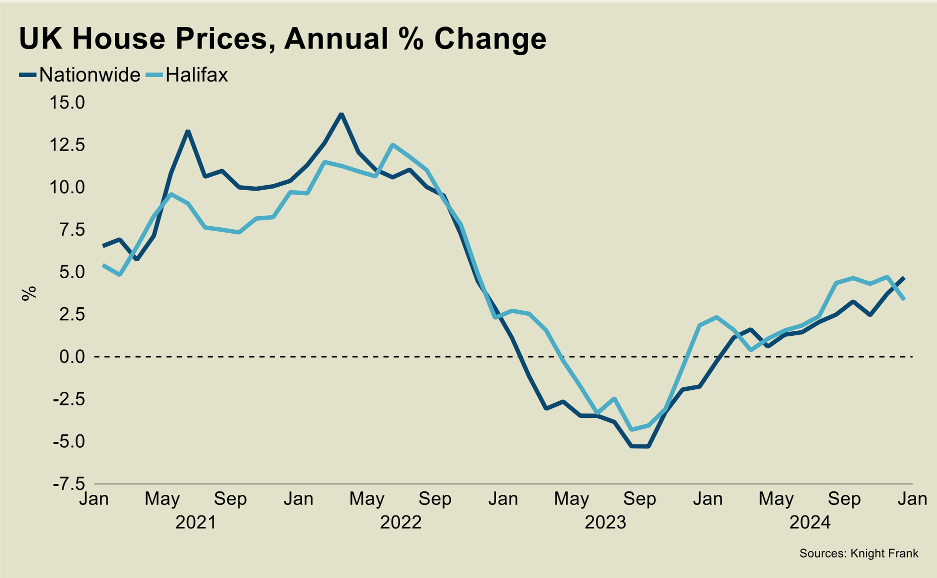
Residential Prices

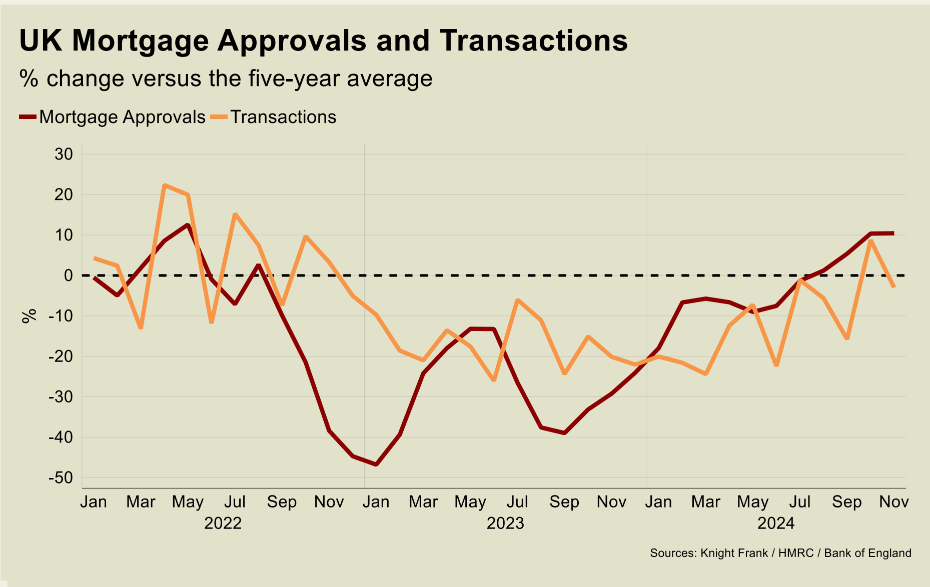


Although Nationwide reported UK annual house price growth of 4.7% in December, we believe demand will come under more pressure as higher borrowing costs feed through into the mortgage market.

Indeed, Halifax reported that prices fell 0.2% in the month to December as the tougher rate environment took its toll.

A series of weak economic readings since the Budget in October have shown that economic growth is marginal while there has been a marked negative impact on business and consumer sentiment, underlined by a slide in December's retail figures.

Residential Transactions



The impact of the Budget has also been seen in transaction and mortgage approval numbers.

Transactions fell almost 8% between October and November, while the number of mortgage approvals was down by 3.5% over the same period.

Activity levels typically climb as Christmas approaches.

Higher borrowing costs mean the SONIA five-year swap rate (used to price fixed-rate mortgages of the same length) climbed from 3.4% in September to 4.3% in mid-January.

The impact was magnified by a bond sell-off in the US due to inflationary concerns surrounding Donald Trump's second term as President.

Prime London Sales

Higher mortgage costs are not just a problem for borrowers.

For those paying in cash, which typically accounts for half of sales in the central London boroughs of Westminster and Kensington & Chelsea, there is also an impact.

As sought-after buyers ready to transact, those with cash can help keep downwards pressure on prices by driving a harder bargain.

They can also hesitate if a property market appears to be falling or moving sideways.

The number of transactions in PCL and POL last year was 0.5% higher than in 2023, Knight Frank data shows. Activity was skewed towards the second half of 2024 due to falling rates over the summer and a relief bounce in October when it became clear that capital gains tax for residential property would be left unchanged in the Budget.

In the final six months of last year, transactions rose 3% versus the same period in 2023.

Prime London Lettings

When comparing London's rental market in 2024 and 2023, the most striking thing is the similarity between the two years.

On the demand side, the number of new prospective tenants was 0.6% higher last year than in 2023, Knight Frank data shows. Viewings were down 0.2%, while the number of tenancies started edged down slightly further, by 6%.

Meanwhile, the number of new listings across prime central and outer London was 3% higher, Rightmove data shows.

The numbers signal some much-needed stability for the lettings market in the capital after several years of stock shortages due to tighter landlord regulations, higher mortgage costs, a growing tax burden for buy-to-ley investors and the disruption of the pandemic.

Average rents in prime central London rose by 0.7% in the year to December 2024, while the increase was 1.3% in prime outer London.

Prime Country Houses

The mood of uncertainty has created opportunities for anyone able to hold their nerve, said James Cleland, head of the Country business at Knight Frank.

"The quality of stock on the market is high and most vendors recognise the headwinds facing buyers. The alternative would be to wait several years for a possible change of government, by which time we expect prices to be more than 15% higher than they are today," he said.

The Country House Price Index fell by 0.3% in the final quarter of 2024, which took the annual decline to 0.9%.

Urban markets (-0.5% annual change) performed relatively more strongly than rural locations (-3%), thanks to a higher proportion of needs-driven buyers. Although the number of exchanges in 2024 was broadly flat compared to 2023, it was down by about a fifth compared to the five-year average.

3 MONTHS TO DECEMBER 2024

PCL	▼	Sales -0.1%	▲	Rents -0.4%
POL	▲	Sales 0.3%	▲	Rents -0.1%

YEAR TO DECEMBER 2024

PCL	▼	Sales -1.0%	▲	Rents 0.7%
POL	▲	Sales 1.2%	▲	Rents 1.3%

3 MONTHS TO DECEMBER 2024

Prime Country House Index	▼	-0.3%

YEAR TO DECEMBER 2024

Prime Country House Index	▼	-0.9%

Source: Knight Frank Research

Got a question? Do get in touch, and you can sign up for more analysis at knightfrank.com/research.

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