

UK Residential Market Update



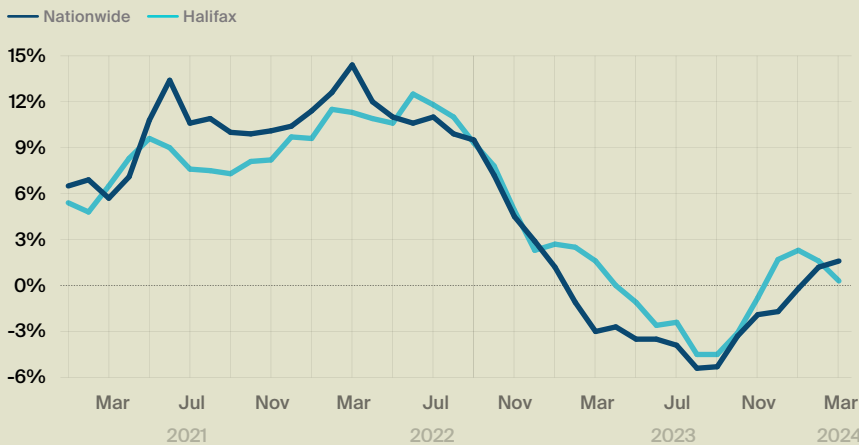
Q2 2024

UK house price growth loses steam as rate cut expectations fade on the back of strong services inflation data. Meanwhile, transactions look set for a seasonal spring bounce as supply rises.

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► Residential Prices

UK house annual % price change



Source: Knight Frank Research

The prevailing mood in the UK housing market is one of anticipation with both a rate cut and a new Prime Minister on the horizon.

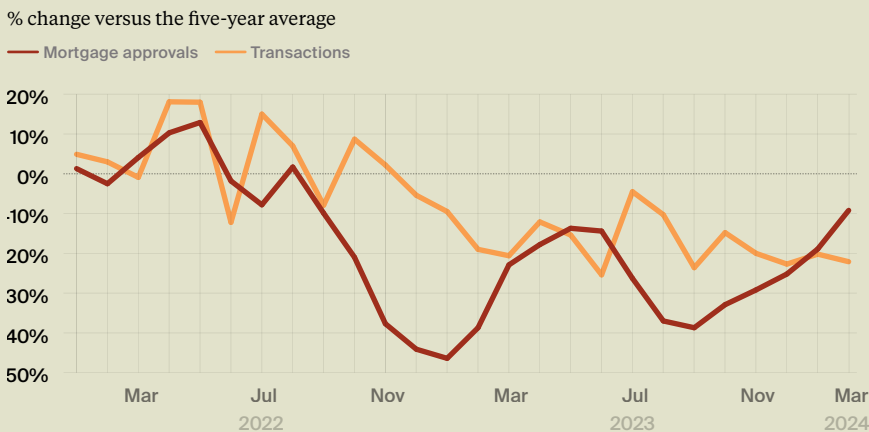
Recent house price data suggests the current direction of travel is sideways. The monthly growth reported by Nationwide and Halifax in the first two months of the year went into reverse in March.

Annual price growth in March was 1.6% according to the Nationwide, while the Halifax recorded growth of 0.3%.

Frustratingly for buyers, the prospect of the first rate cut since March 2020 appears to move further into the distance with each release of economic data.

► Residential Transactions

UK mortgage approvals and transactions



Source: Knight Frank Research

Transactions continued to pick up in the first few months of the year.

The positivity that infused the market earlier this year means the number of listings has risen in recent months and there should be a recognisable seasonal bounce in activity this spring.

After a sharp decline last year as inflation and mortgage rates rose, the number of mortgage approvals was only 9% below the five-year average in February, having hit a 17-month high.

Meanwhile, the number of transactions has continued to be around a fifth below the five-year average although we expect numbers to pick up as the year progresses.

PRIME LONDON SALES

Mortgage costs have dipped and risen in recent months as signals around inflation have been frustratingly mixed.

The result is a lack of urgency among buyers, a fact compounded by rising supply. The number of sales instructions in London was 17% above the five-year average in the first quarter of 2024.

This mood of circumspection means needs-based buyers are currently playing a bigger role in driving activity.

While this has benefitted lower-value markets, where a higher proportion of domestic buyers move for education or employment, there has been more hesitancy in discretionary, higher-value markets. Uncertainty around recent rule changes for individuals with non-dom tax status may have aggravated the situation.

Overall, average prices in PCL fell 2.4% in the year to March, the same figure as recorded in February. Meanwhile, prices were down by 1.5% in POL after rising by 0.1% on the previous month.

PRIME LONDON LETTINGS

Lettings supply continued to build while demand remained steady, which increased downwards pressure on rents.

Average rents rose 5.6% in prime central London (PCL) in the year to March. While it compared to an equivalent increase of 16.9% in March 2023, rents are still 34% higher than before the pandemic.

Meanwhile, in prime outer London (POL), rents are 30% higher than before Covid. Annual growth shrank to 5.1% in March from 15.2% a year earlier.

Landlords have left the sector in recent years due to extra red tape and taxes. The shortage became more acute as owners took advantage of the 14-month stamp duty holiday from July 2020.

Supply is returning more noticeably in upper price brackets among more discretionary owners who have switched from sales to lettings.

While the number of new lettings listings in PCL and POL was 13% below the five-year average in the first quarter of this year, there was a 40% increase above £1,000 per week.

COUNTRY MARKET

Country home price growth has turned positive on a quarterly basis for the first time in almost two years.

According to the latest results of the Knight Frank Prime Country House Index, which tracks the average value of country homes across the UK, prices increased 0.3% in the first quarter of the year. The last time the index registered positive quarterly growth was in June 2022.

On an annual basis values are down 5%, an improvement on the recent low of -6.1% recorded in September 2023.

Nonetheless, values still sit 11.8% higher than they did at the start of the pandemic in March 2020.

Analysis shows the lower price brackets continue to register the biggest annual price declines. Homes priced between £1 million and £2 million registered a decline of 5.7% in the year to March 2024.

In contrast homes priced above £5 million dipped 2.4% over the same period.

3 MONTHS TO MARCH 2024

PCL	Sales -0.4%	Rents 0.4%
POL	Sales 0.2%	Rents 0.2%

YEAR TO MARCH 2024

PCL	Sales -2.3%	Rents 5.6%
POL	Sales -1.5%	Rents 5.1%

Source: Knight Frank Research

3 MONTHS TO MARCH 2024

Prime Country House Index	0.3%
Edinburgh City Index	0.6%

YEAR TO MARCH 2024

Prime Country House Index	-5%
Edinburgh City Index	-1.8%

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



Kate Everett-Allen
Head of International and Country Research
+44 20 7167 2497
Kate.Everett-Allen@knightfrank.com