UK Residential Market Update

Q2 2025

The UK property market continues to adjust to new governments on both sides of the Atlantic. Higher US trade tariffs have created concerns about an economic slowdown, as well as their impact on UK inflation and the autumn Budget.

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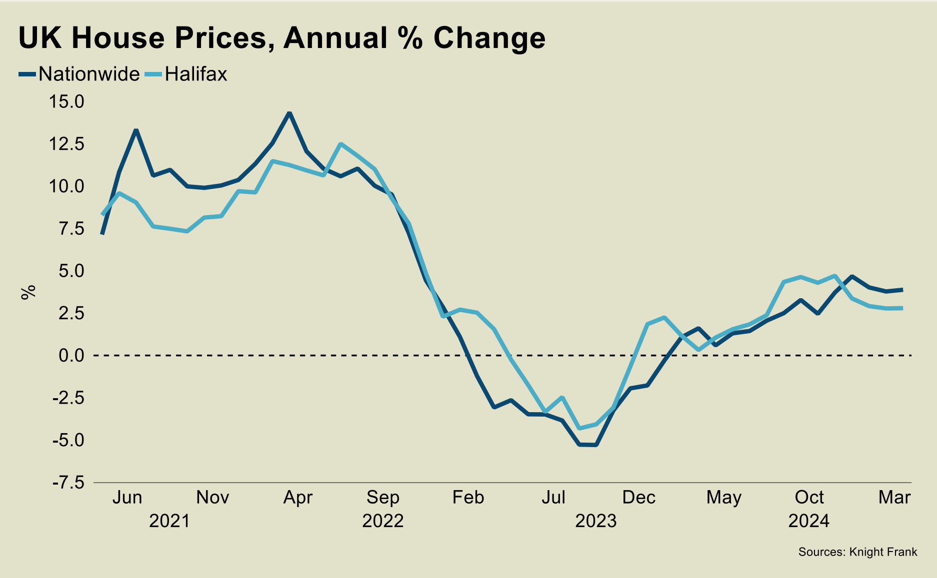
Residential Prices



UK house prices came under downwards pressure in the first three months of the year.

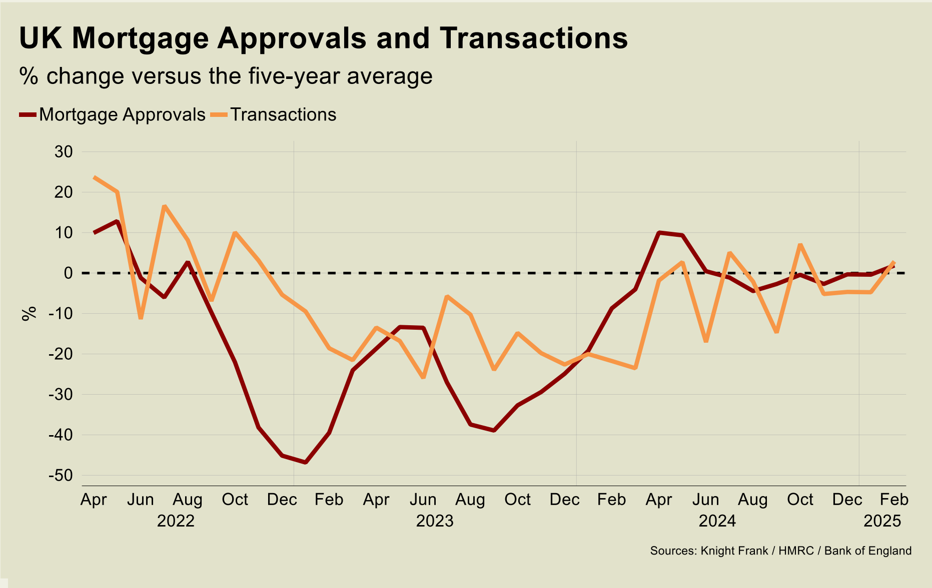
The first reason was that January saw borrowing costs jump ahead of Donald Trump's inauguration due to inflationary concerns over trade tariffs and the US economy.

Second, a stamp duty increase in April meant some buyers were put off by the rush to complete in March, which meant supply exceeded demand.

Meanwhile, upwards pressure on UK borrowing costs persisted due to doubts around the government's narrow financial headroom.

The Halifax index showed average UK prices increased by 2.8% in the year to March, while the Nationwide recorded a rise of 3.9%.

Residential Transactions



Transactions and mortgage approvals were lifted by the stamp duty 'cliff edge' at the end of March.

Both figures were marginally higher than the five-year average in February as buyers attempted to save a maximum of £2,500. For first-time buyers, the figure was up to £11,250.

The stamp duty deadline will have artificially increased activity levels during Q1.

Economic slowdown risks due to US trade tariffs have since increased downwards pressure on borrowing costs, which will support demand.

Financial markets have responded by betting on three rather than two further rate cuts by the Bank of England this year.

Prime London Sales

Supply continues to outpace demand in prime London. The number of new prospective buyers was 5% below the five-year average in Q1 while the number of new sales instructions was 28% higher.

The imbalance signals continued downwards pressure on prices as demand is kept in check by the government's hardening attitude to wealthy foreign investors.

Average prices in PCL fell 0.7% in the three months to March, which was the steepest quarterly decline since January 2024.

Meanwhile, prices were firmer in POL, a market supported by equity-rich, needs-based domestic buyers. The annual price change was 1.5% for the second consecutive month in March.

We expect demand to be supported as the tax landscape becomes clearer and economic slowdown fears due to US tariffs put downwards pressure on borrowing costs.

Prime London Lettings

The Renter's Rights Bill, together with the prospect of tougher green regulations and rising mortgage costs, are curbing supply.

As more landlords leave the sector, the number of new lettings properties coming to the market in London and the Home Counties in the first quarter of the year was 10% lower than the same period last year, Knight Frank data shows. It was 15% down versus 2023.

It is putting upwards pressure on rents. Average rents in PCL rose by 0.6% in the three months to March, which was the largest quarterly increase since November 2023. It took the annual change to 0.8%, the widest since October last year.

Meanwhile, average rents rose 0.1% in the three months to March in prime outer London, which was the highest increase since November last year. The annual increase was 1.2%, which was up from 1% in January and February this year.

Prime Country Houses

Tariff turbulence and slowdown fears mean financial markets are betting on three further rate cuts this year rather than two, which will support demand.

However, the volatility shows sellers need to set their asking prices realistically as the spring market gets underway.

"Buyers are only interested in competitively-priced stock," said James Cleland, head of the Country business at Knight Frank.

Underlining the importance of realistic prices, supply in the Country was stronger than demand in Q1. While the number of properties coming to the market increased by 3% versus last year, the number of new prospective buyers fell by 7%.

The imbalance between supply and demand kept downwards pressure on prices, which fell by 0.3% over the first quarter. It took the annual price fall in the Country to -1.6%, which was the widest decline since Q2 2024.

3 MONTHS TO MARCH 2025

PCL	Sales -0.7%	Rents 0.6%
POL	Sales 0.5%	Rents 0.1%

3 MONTHS TO MARCH 2025

Prime Country House Index	-0.3%

YEAR TO MARCH 2025

PCL	Sales -1.3%	Rents 0.8%
POL	Sales 1.5%	Rents 1.2%

YEAR TO MARCH 2025

Prime Country House Index	-1.6%

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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