UK Residential Market Update

Q3 2024

Following July's general election, the UK housing market is waiting for more clarity from the government in relation to its tax plans. Meanwhile, as sub-4% mortgages re-appear, demand will be boosted in the autumn by the August rate cut and the prospect of a further reduction before the end of the year.

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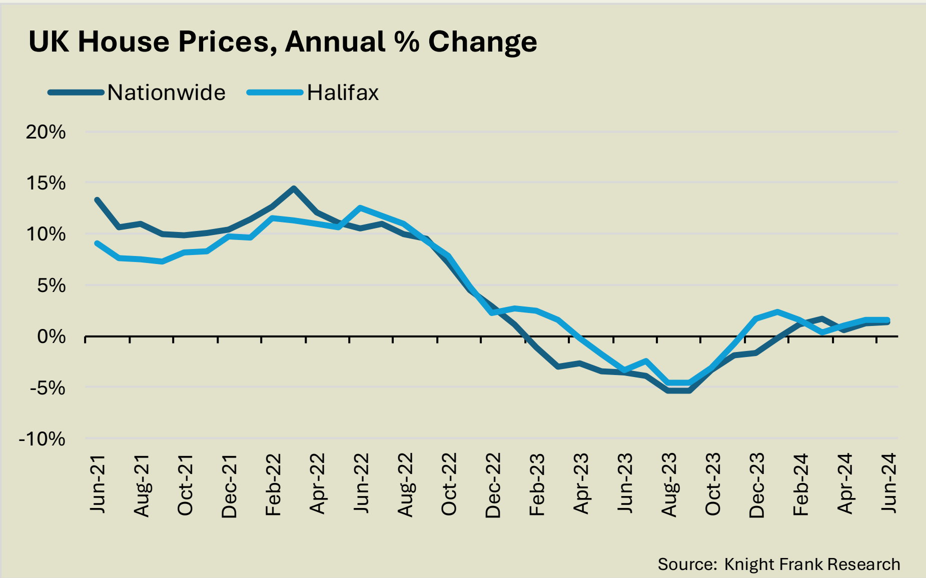
Residential Prices



UK house price growth was subdued over the traditionally busy spring period this year.

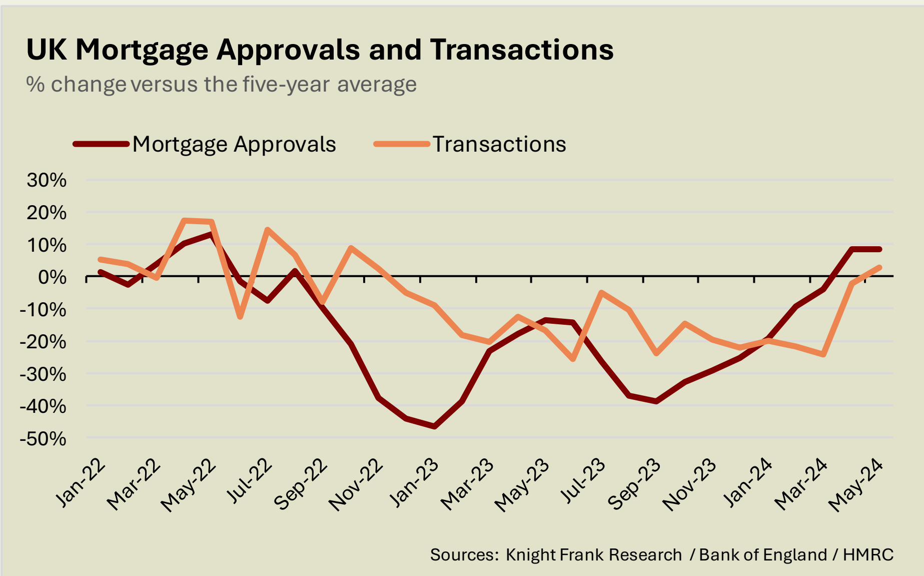
Demand has been kept in check by stubborn inflation, which meant mortgage rates were higher than lenders would have liked, despite the recent appearance of sub-4% five-year fixed rates.

Price growth has also been mitigated by rising supply as sellers acted following larger rate drops in the early part of this year.

The Nationwide recorded average UK price growth of 1.4% in June, while the figure from the Halifax was 1.6%.

We expect UK prices to grow by 3% this year as demand strengthens following an autumn rate cut.

Residential Transactions



Transactions and mortgage approvals have continued to rise in recent months.

The number of transactions was 2.6% higher than the five-year average in May, according to HMRC. Meanwhile, the number of mortgage approvals was 8.5% higher.

The pick-up follows an 18-month lull that began with the mini-Budget in September 2022 and continued as inflation remained stubbornly high throughout 2023.

We expect sales volumes to increase in the second half of the year as inflation is tamed and downwards pressure on mortgage rates intensifies.

Prime London Sales

Average prices fell by 2.4% in prime central London in the year to June for the second month in a row. Demand had been kept in check by uncertainty over the timing of the first rate cut in more than four years and the possible implications of a new Labour government, which we analyse here.

In prime outer London, prices fell 0.9% over the same period, reflecting how markets where a higher proportion of demand is driven by needs, including employment and education, have performed better in this higher-rate environment. Our latest analysis of what may happen next to mortgage rates is here.

Meanwhile, overseas buyers in London looking to take advantage of the weak pound might start to sense their window of opportunity closing.

Amid a series of global elections this year, Sterling is likely to strengthen against the US dollar and the Euro, for reasons explored in more detail here.

Prime London Lettings

As supply increases and demand reduces to more normal levels, the downwards pressure on rental values in prime London postcodes has intensified.

Rental value growth in prime central London fell to 3.5% in the year to June, while the figure was 3.6% in prime outer London.

In both cases, it was the lowest figure since July 2021 when the long-let market was flooded with short-let properties during the pandemic.

Landlords and tenants will now understandably be wondering what happens next to rents.

It's not a straightforward question given the impending revival of the Renters Reform Bill by the Labour Party.

The government needs to balance its ambition to make life easier for tenants with an approach that does not cause more landlords to sell up, which would increase rents, as we explore here.

Political interventions can often produce unintended consequences.

Prime Country Houses

Average prices in Country markets fell by 3% in the year to Q2 2024 which was the narrowest decline since Q1 2023, showing how demand has strengthened as mortgage rates have fallen versus last year.

Despite the current seasonal lull, we expect demand to strengthen in the final quarter of this year as more clarity emerges around the government's tax plans and a possible second rate cut takes place.

The biggest uncertainty facing buyers and sellers was the timing of the first cut since March 2020, so activity and demand should pick up this autumn after the August reduction to 5%.

Expectations should be tempered by stubbornly-high services inflation, although November is being priced in by money markets for a second cut.

Although mortgage rates are lower than they were this time last year, there hasn't been any significant downwards movement for six months. That said, though demand should rise as more rates fall below 4%.

3 MONTHS TO JUNE 2024

PCL	▼ Sales -0.3%	▲ Rents 0.4%
POL	▲ Sales 0.2%	▲ Rents 0.5%

3 MONTHS TO JUNE 2024

Prime Country House Index	▼ -0.6%

YEAR TO JUNE 2024

PCL	▼ Sales -2.4%	▲ Rents 3.5%
POL	▼ Sales -0.9%	▲ Rents 3.6%

YEAR TO JUNE 2024

Prime Country House Index	▼ -3.0%

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

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