UK Residential Market Update

Q3 2025

Activity and prices came under pressure in the second quarter of 2025, due to the impact of the stamp duty cliff edge in March and uncertainty on global financial markets over US trade tariffs. However, weak UK economic data meant rate cut expectations grew.

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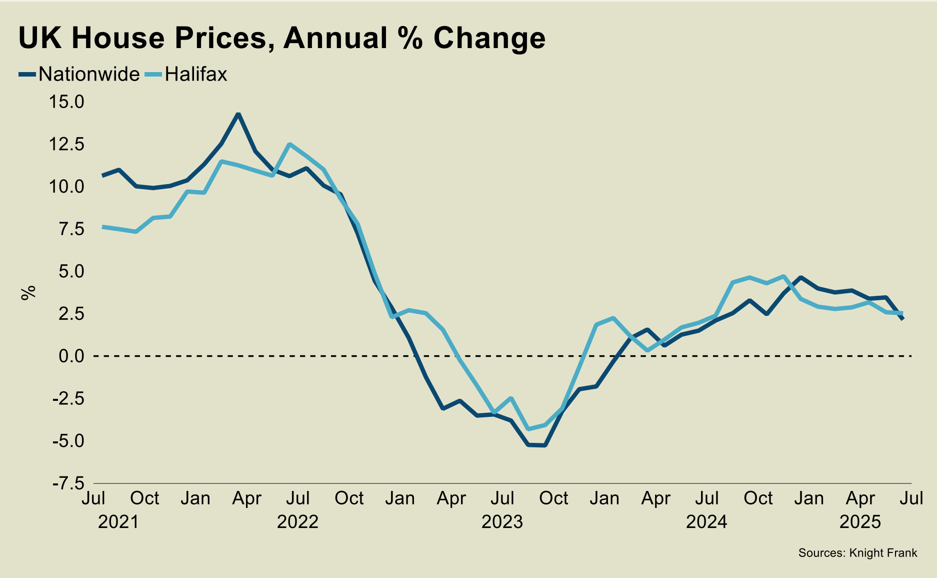
Residential Prices

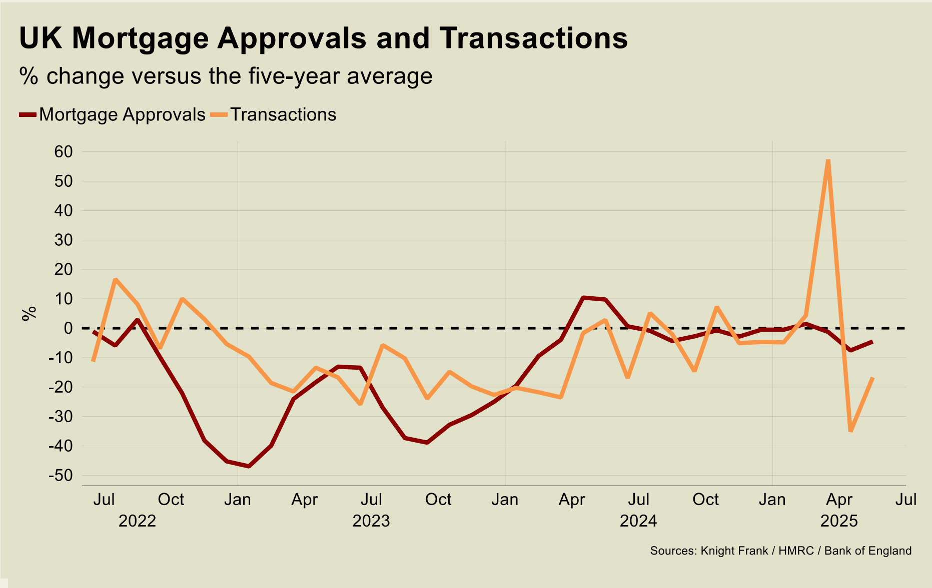


Uncertainty on financial markets over US trade tariffs and the impact of activity being pulled forward into Q1 ahead of stamp duty changes put downwards pressure on house prices in Q2.

The impact was compounded by high supply. As well as an overhang of stock due to the stamp duty deadline, sellers re-activated plans put on hold last year due to the political upheavals. Furthermore, some landlords are selling due to extra red tape and holiday homes are being sold due to recent council tax changes.

UK price growth narrowed to 2.1% in the year to June, according to Nationwide, while Halifax reported flat growth of 2.5%.

Residential Transactions



It was a rollercoaster ride for transaction numbers and mortgage approvals in Q2 thanks to the stamp duty cliff edge.

Transactions spiked 57% above the five-year average in March before falling by 35% in April.

The gap narrowed in May, which recorded a 17% decline, and we expect that upwards trajectory to continue through Q3.

Mortgage approvals also returned towards their five-year average in May as demand recovered.

Weak UK economic data in Q2 means we expect activity and house prices will be supported by a possible rate cut in August and at least one more in 2025, depending on how quickly inflation is tamed.

Prime London Sales

As a result of the tougher political landscape, average prices in prime central London (PCL) fell 2.5% in the year to June, which was the widest decline since April 2024 and the second largest fall since March 2021.

Meanwhile, prices in prime outer London (POL), where demand is driven by domestic and needs-based buyers, are being squeezed by higher levels of supply.

Average prices in POL rose 0.9% in the year to June, which is down from a figure of 1.5% in March. A decline of 0.4% in the three months to June was the steepest quarterly fall since November 2023.

Tougher rules for wealthy foreign investors mean demand has weakened in higher price brackets. Exchanges above £5 million in London fell 15% in the year to June versus the previous 12 months, Knight Frank data shows. Below that threshold, the numbers were flat.

Prime London Lettings

More landlords are exploring a sale due to the tougher regulatory environment. In addition to the prospect of stricter energy efficiency rules, the forthcoming Renters Rights Bill could make it more onerous to regain possession of a property and raises the risk of void periods.

The result is fewer new properties available to let. The number of lettings instructions fell 8% in the year to June compared to the previous 12 months, Knight Frank data shows.

It also means upwards pressure on rents. Average rents in PCL increased 1.5% in the year to June but rose 1.7% over the first half of the year. It was the biggest increase over a six-month period since January 2024.

In POL, annual growth of 1.5% was driven by an increase of 0.8% over the last quarter. This three-month figure was last surpassed in November 2023.

Prime Country Houses

High levels of supply and downwards pressure on prices meant Q2 2025 was the best market for buyers in the Country for seven years.

For every new sales instruction in the three months to June, there were 5.9 new prospective buyers. That compares to nearly 19 at the height of the 'escape to the Country' boom during the pandemic.

The number of new sales instructions in Q2 2025 was 7% above the five-year average (excluding 2020).

The imbalance has led to lower prices. The Country House Price Index, which covers properties above £750,000 in a range of urban and rural markets outside London, fell 3.5% in the year to June 2025, which compared to a drop of 1.6% in the year to March.

The drop over the quarter was 2.5%, which was the second steepest decline over a three-month period since the global financial crisis in Q1 2009.

3 MONTHS TO JUNE 2025

PCL	▼ Sales -1.4%	▲ Rents 1.1%
POL	▲ Sales -0.4%	▲ Rents 0.8%

3 MONTHS TO JUNE 2025

Prime Country House Index	▼ -2.5%

YEAR TO JUNE 2025

PCL	▼ Sales -2.5%	▲ Rents 1.5%
POL	▲ Sales 0.9%	▲ Rents 1.5%

YEAR TO JUNE 2025

Prime Country House Index	▼ -3.5%

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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