

*Five-year sales and rental forecasts for UK
mainstream and prime property markets*
2022-2026



UK Residential Market Forecast

April 2022

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SALES MARKET FORECAST

The UK property market has defied gravity over the course of the pandemic, but sharp rates of growth are set to slow this year

Tight supply, low interest rates, accumulated household wealth and a desire for more space and greenery have conspired to produce double-digit house price growth over the last year.

We believe that 2022 is when this begins to unwind, and growth returns to single digits.

We forecast that UK prices will grow by 5% this year, with several factors acting as a drag on the rampant growth that has taken place in recent months despite the end of the stamp duty holiday last September.

First, mortgage rates will continue to rise alongside interest rates. The Ukraine conflict may slow the pace of this normalisation, but the Bank of England will be under pressure to

respond to inflationary pressures in the short-term and the UK's economic recovery in the longer-term.

Crucially, we believe supply will continue to increase as the distortive effects of the pandemic fade. The supply shortage has been the single biggest cause of strong house price growth and early signs this spring suggest stock levels are building.

Meanwhile, the 'race for space' will calm down without disappearing altogether. For many people, the post-Covid work-life balance is far from set in stone and demand will still be fuelled by a desire to improve living arrangements after successive lockdowns, in many cases enabled by the accumulation of household wealth and the fact many sectors

of the economy have performed well during the pandemic.

However, we believe the cost-of-living squeeze will bite harder in 2023, and we expect house prices to climb by 1% before starting to slowly pick up again.

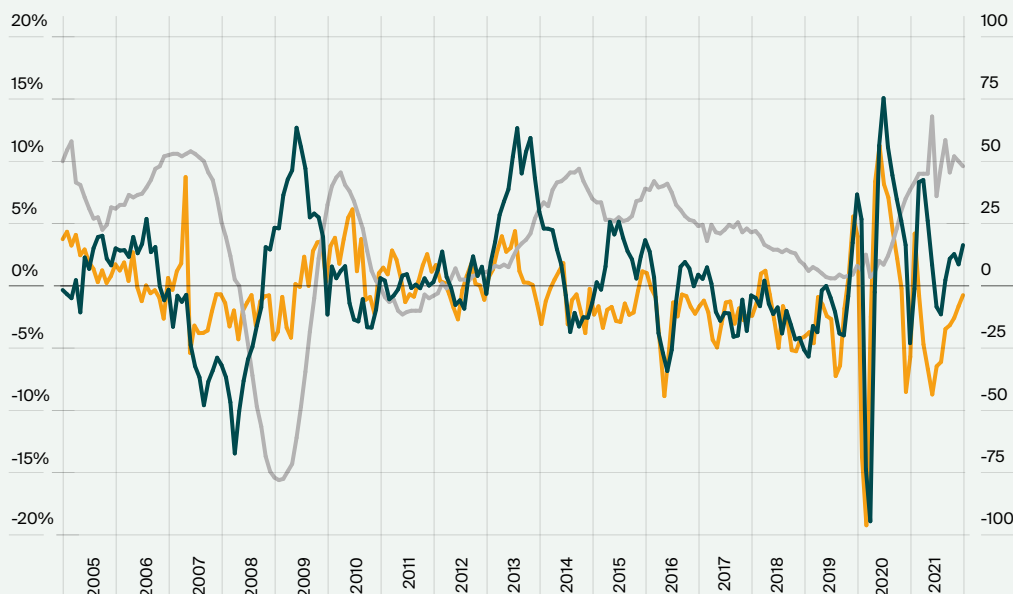
In the five years to 2026, this will produce 13.6% cumulative growth in the UK. We believe some regions will outperform as they benefit from the UK's changing economy after Covid. The Midlands for example, we believe will benefit from the growth of the logistics sector and life sciences.

Prime London sales

In prime central London, we forecast 3.5% growth this year as the property market inside zone 1 continues its overdue recovery after six years

Price growth supported by supply/demand imbalance

■ Annual house price change, lhs ■ Buyer enquiries, rhs ■ New instructions, rhs



Source: Knight Frank Research, RICS, Land Registry

17%

Increase in average UK house prices since the start of the pandemic. A key factor underpinning the inflation in house prices has been low supply. In a sign supply has recently picked up, a net balance of -4% of respondents to the RICS UK Residential Market Survey in February said there was a decrease in new instructions to sell.

KEY ECONOMIC FORECASTS

	2022	2023	2024	2025	2026	5 YEAR CUMULATIVE
CPI	7.0%	2.5%	0.9%	1.2%	1.5%	13.7%
EARNINGS	4.8%	3.2%	2.7%	2.0%	2.8%	17.2%
GDP	3.9%	4.0%	3.8%	3.9%	3.7%	24.8%

Source: Oxford Economics, April 2022

of political uncertainty and the emergence of a more adverse tax landscape.

We forecast that growth will be 6% in 2023 as the return of international buyers gathers pace. That is later than we previously anticipated and reflects how there is unlikely to be a single moment when overseas demand normalises. Instead, the process will be more gradual and erratic as different countries deal with Covid-19 in different ways. We forecast 22.2% growth in PCL over the period.

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In an echo of the wider UK market, we expect prime outer London (POL) to continue to benefit from the 'race for space' this year, which is likely to tail off from 2023, producing 15.9% growth over the five-year period.

It is a similar story in prime country markets, where prices are forecast to grow 17% over 5 years. Prices in prime markets outside of London will also be supported by the fact there is headroom for growth after the comparatively subdued decade that followed the global financial crisis.

MAINSTREAM AND PRIME SALES MARKETS

	2022	2023	2024	2025	2026	5 YEAR CUMULATIVE
PRIME SALES MARKETS						
PCL	3.5%	6.0%	5.0%	3.0%	3.0%	22.2%
POL	4.0%	3.0%	3.0%	2.5%	2.5%	15.9%
PRIME COUNTRY	5.5%	2.5%	2.0%	3.0%	3.0%	17.0%
MAINSTREAM SALES MARKETS						
UK	5.0%	1.0%	2.0%	2.0%	3.0%	13.6%
EAST MIDLANDS	5.0%	1.0%	2.5%	2.5%	3.0%	14.8%
EAST	6.0%	1.0%	2.0%	2.0%	3.0%	14.7%
LONDON	4.0%	1.0%	1.5%	1.5%	2.0%	10.4%
NORTH EAST	5.0%	0.0%	2.0%	2.0%	3.0%	12.5%
NORTH WEST	5.0%	0.0%	2.0%	2.0%	3.0%	12.5%
SCOTLAND	4.0%	0.0%	2.0%	2.0%	3.0%	11.4%
SOUTH EAST	6.0%	0.0%	2.0%	2.0%	3.0%	13.6%
SOUTH WEST	3.0%	0.0%	2.0%	2.0%	3.0%	10.4%
WALES	5.0%	0.0%	2.0%	2.0%	3.0%	12.5%
WEST MIDLANDS	5.0%	1.0%	2.5%	2.0%	3.0%	14.2%
YORKS AND HUMBER	5.0%	0.0%	2.0%	2.0%	3.0%	12.5%

Source: Knight Frank

N.B. Forecasts relate to average prices in the second-hand market.
New-build values may not move at the same rate.

RENTAL MARKET FORECAST

UK rents set for steady growth over the next five years supported by constrained supply and strong tenant demand

Rents across the UK are forecast to increase by 4% in 2022, building on the strong performance of the market in the second half of last year. Longer-term, constraints on the supply of rental properties on the market, strong demand from tenants and robust growth in earnings will support an increase of 17% in rental values over the next five years.

At a national level, the rental market is being shaped by a deepening supply and demand imbalance.

The number of properties available to rent during Q1 2022 was over a third lower than the five-year average pre-

pandemic. At the same time, demand from tenants has continued to rise. The RICS residential survey reported that tenant demand rose to its highest level since 1999 in January, while new landlord instructions remained in decline.

In part, the shortfall of supply reflects the fact some landlords have left the sector because of tax and regulatory changes in the last few years, a trend we don't forecast will reverse. We expect a shortage of rental homes relative to demand will be a key factor underpinning rental growth in all regions in 2022, notwithstanding the fact that short-term inflationary

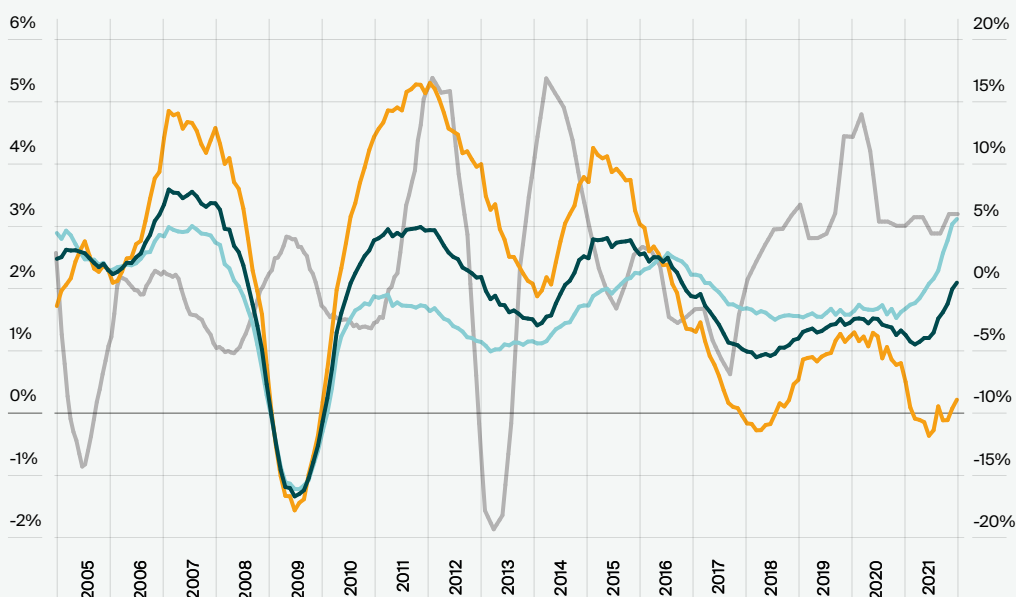
pressures will, inevitably, act as a brake on larger rises as household finances are stretched. Current forecasts from Oxford Economics suggest inflation will end 2022 at 7%, though cumulatively inflation is only expected to increase by 13.7% between 2022-26.

In later years, supply will remain tight, but we are forecasting that earnings growth will act as the main driver behind rents, resuming a long-term relationship and supported by a robust outlook for the employment market. That means we expect UK rents will rise by 17% over the next five years, matching the outlook for



Annual rental value change

■ England, excluding London ■ England ■ London ■ PCL, rhs



3%

Rise in rents across England, excluding London, in the year to February 2022. Growth in England has outpaced the capital at 2% vs 0.2% due to a deepening supply and demand imbalance.

earnings growth over this time. There is, however, scope for stronger rental growth in areas of the country where rents are relatively more affordable, particularly in the North and Midlands.

The prospect of further regulatory reforms towards the end of our forecast period, largely around minimum energy efficiency standards, have the potential to limit supply from mortgaged landlords further.

Prime London rents

The rental market in London and the Home Counties continues to be marked by high demand and low supply, which we forecast will produce growth of 8% in prime central London this year. Very strong annual growth in the early months of

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"There is scope for stronger rental growth in areas of the country where rents are relatively more affordable, particularly in the North and Midlands"

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2022 reflects how far rents fell in the first half of 2021 as short-let property flooded the long-let market.

Supply dried up as staycation rules were relaxed while demand grew as offices and universities re-opened. The imbalance will only work its way through the system slowly, maintaining strong upwards pressure on rental values this year.

We believe that rental value growth will then normalise, and we expect increases of below 4% in prime central London from 2023, producing cumulative growth of 22.7%.

We expect less of a marked imbalance between supply and demand this year in prime outer London. Following growth of 5%, we forecast 19.3% over the five-year period.

MAINSTREAM AND PRIME RENTAL MARKETS

	2022	2023	2024	2025	2026	5 YEAR CUMULATIVE
PRIME RENTAL MARKETS						
PCL	8.0%	3.5%	3.5%	3.0%	3.0%	22.7%
POL	5.0%	3.5%	3.5%	3.0%	3.0%	19.3%
MAINSTREAM RENTAL MARKETS						
UK	4.0%	3.5%	3.0%	3.0%	2.5%	17.1%
EAST MIDLANDS	4.5%	4.0%	3.5%	3.0%	3.0%	19.3%
EAST	4.0%	3.0%	3.0%	3.0%	2.5%	16.5%
LONDON	4.5%	3.5%	2.5%	2.5%	2.0%	15.9%
NORTH EAST	4.0%	3.0%	3.0%	3.0%	3.0%	17.1%
NORTH WEST	4.0%	3.5%	3.5%	3.0%	3.0%	18.2%
SCOTLAND	3.5%	3.0%	3.0%	3.0%	3.0%	16.5%
SOUTH EAST	3.5%	3.5%	3.0%	3.0%	3.0%	17.1%
SOUTH WEST	4.0%	3.5%	3.0%	3.0%	3.0%	17.6%
WALES	3.5%	3.0%	3.0%	2.5%	2.5%	15.4%
WEST MIDLANDS	4.5%	4.0%	3.5%	3.5%	3.0%	19.9%
YORKS AND HUMBER	3.5%	3.0%	3.0%	3.0%	3.0%	16.5%

Please get in touch with us

If you are looking to buy, sell or would just like some property advice, we would love to hear from you.



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