

UK Residential Market Update



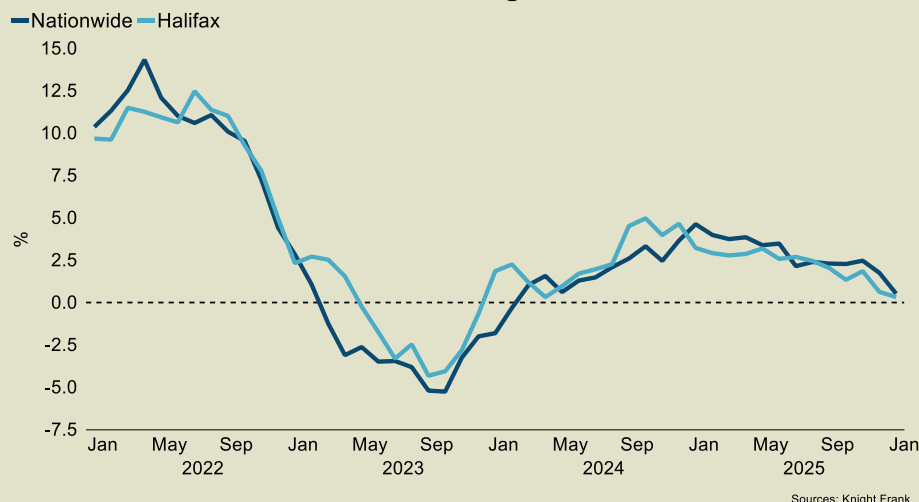
Q1 2026

Housing market activity increased in the final weeks of 2025 and early 2026 as buyers and sellers activated plans on hold from before November's Budget. Prices continued to come under pressure as supply increased. We expect falling mortgage rates to further support demand, but the mood is one of cautious optimism while wider domestic political uncertainties persist.

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Residential Prices

UK House Prices, Annual % Change



Both main UK indices showed house price growth evaporating last year. Supply built in 2025 following a stamp duty cliff edge in April and as more landlords left the lettings sector due to red tape and higher taxes, which produced downwards pressure on prices.

Meanwhile, demand was undermined during months of tax speculation ahead of the Budget.

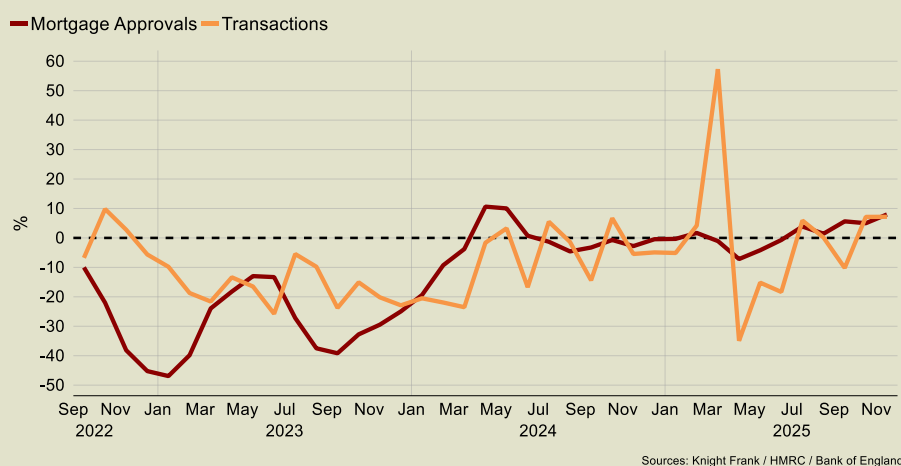
Now there is more clarity and mortgage rates continue to head lower, we expect stability rather than the feelgood factor to return in the early months of 2026.

Despite the growing risk of domestic political uncertainty, we think UK house price growth should climb to 3% by the end of this year.

Residential Transactions

UK Mortgage Approvals and Transactions

% change versus the five-year average



Housing transactions increased after the summer as supply rose, mortgage rates stabilised, and some buyers acted ahead of possible tax hikes the Budget.

While others held off due to the pre-Budget uncertainty, the number of mortgage approvals in November climbed to 8% higher than the five-year average. Meanwhile the number of residential transactions recorded by HMRC was up by 7% over the same period.

The growing availability of sub-4% mortgages has underpinned demand, which should continue in 2026. Financial markets in mid-January were almost fully pricing in two quarter-point cuts this year.

Prime London Sales

Activity in the prime London sales markets was boosted by the late bounce in 2025 as some buyers and sellers acted shortly before the November Budget due to the speculation over property taxes. Others acted after the event, relieved that mansion tax rates were not set higher.

The effect was more noticeable in prime markets. While the overall number of sales in London fell by 7% in Q4 2025 compared to the same period in 2024, the equivalent increase above £5 million was 29%.

Average prices in prime central London fell 5% in the year to December, which was the biggest annual fall recorded since the market was closed during the pandemic in July 2020. It means prices are down by 22% since the last peak in mid-2015.

Prices have been steadier in the more needs-driven and domestic market of prime outer London. After being flat in the final quarter of 2025, prices ended the year 0.2% down.

Prime London Lettings

A sense of certainty following November’s Budget drove demand in the lettings market at the end of 2025.

The number of new prospective tenants registering in London in December was 12% higher than the same month in 2024, Knight Frank data shows. Viewings increased by 5%.

That said, the number of tenancies started last year was down 1% versus 2024. Supply fell as more landlords sold due to growing tax and red tape.

Meanwhile, tenancies increased in the super-prime (£5,000+ per week) price bracket, as wealthy individuals hedged their bets by renting rather than buying.

The number of super-prime tenancies started in 2025 was 17% higher than the previous year, Knight Frank data shows.

Rents in prime central London rose 1.7% in the year to December. Meanwhile, there was an annual increase of 2.5% in prime outer London.

Prime Country Houses

More positivity also returned to the Country market at the end of last year.

Covering a range of urban and rural properties above £750,000 outside of London, the number of exchanges in 2025 was 2% down versus 2024. However, there was an equivalent increase of 5% in Q4.

“After the Budget, the market has exhaled,” said James Cleland, head of Country sales at Knight Frank. “The early signs in 2026 are positive, buyers are feeling relieved rather than buoyant, there is greater activity in the market, but sellers should note that prices are still under pressure.”

Last year’s uncertainty meant the average annual price decline widened to 5.7% in Q4 from 5.5% in Q3.

However, the quarterly price drop narrowed from more than 2% earlier in the year to 0.7% in Q4, suggesting the decline is bottoming out.

Average prices for townhouses fell 5.5%, while the equivalent decline for farmhouses was 7.3%.

3 MONTHS TO DECEMBER 2025

PCL	▼	Sales -1.5%	▲	Rents -0.6%
POL	▲	Sales 0%	▲	Rents 0.2%

YEAR TO DECEMBER 2025

PCL	▼	Sales -5.0%	▲	Rents 1.7%
POL	▲	Sales -0.2%	▲	Rents 2.5%

3 MONTHS TO DECEMBER 2025

Prime Country House Index	▼	-0.7%
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YEAR TO DECEMBER 2025

Prime Country House Index	▼	-5.7%
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Source: Knight Frank Research

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