

# UK Residential Market Update



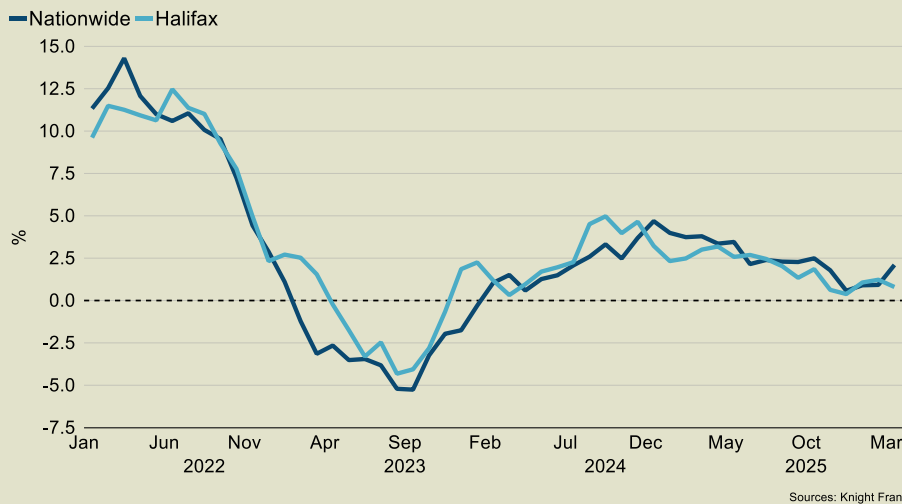
Q2 2026

The Middle East conflict has dominated the headlines since it began in February. The resulting jump in energy prices has pushed inflation expectations higher, which has led to a spike in mortgage rates that will put downwards pressure on house prices and transaction volumes this year.

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## Residential Prices

### UK House Prices, Annual % Change



The full impact of the Middle East conflict is not apparent in the main UK house price indices yet.

The data in March was contradictory, with Nationwide reporting an increase in annual price growth to 2.1%, while Halifax stated there was a drop to 0.8%.

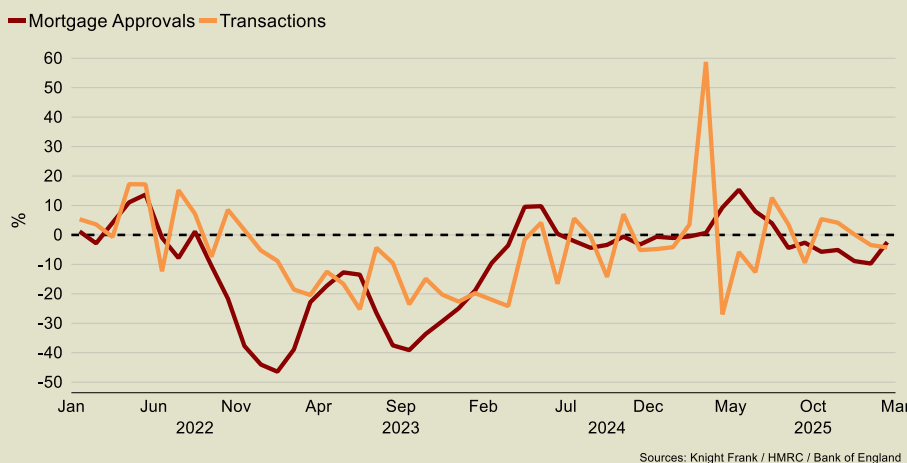
The picture was further clouded by the typical seasonal increase in activity seen in March and the fact many buyers were sitting on sub-4% mortgage offers that pre-dated the conflict.

We expect downwards price pressure to intensify, but the true impact will become clearer over the course of the next few months and will depend on how long the conflict lasts.

## Residential Transactions

### UK Mortgage Approvals and Transactions

% change versus the five-year average



Transactions and mortgage approvals had been returning towards their five-year average following a period of uncertainty ahead of November's Budget, which was supported by a more favourable interest rate outlook.

Before the Middle East conflict began, financial markets were pricing in two cuts by the Bank of England this year, which meant many mortgage rates had fallen below 4%.

Markets are now expecting one rate increase in 2026, although there is a high degree of uncertainty given the uncertain geopolitical backdrop. A weak labour market is one reason the Bank of England may think twice before hiking.

## Prime London Sales

The impact of the Middle East conflict on the UK market is starting to become more obvious.

The number of new prospective buyers registering in March fell 11% year-on-year in the UK, Knight Frank data shows. Demand typically rises as spring approaches, but the figure compares to a smaller 9% drop in February.

In PCL and POL, the equivalent figure was down 6% after having increased by 1% in February.

Average prices in prime London markets continued to fall in March. The market has been under pressure due to the tougher tax landscape, which has seen non dom rules scrapped, stamp duty hiked and a new higher-value council tax band introduced.

In PCL, the annual decline was 4.7% in March, which compared to a figure of -4.9% in February. It means average prices in PCL are 22% below their last peak in mid-2015.

In POL, prices fell 0.6% over the year, which followed a 0.5% annual decline in February.

## Prime London Lettings

Ahead of the introduction of the Renter's Rights Act, falling supply was keeping upwards pressure on rents in prime London markets.

The number of new rental listings in the first quarter of this year in PCL and POL was 8% lower than the same period in 2025, Rightmove data showed. Meanwhile, the number of new prospective tenants increased by 7% over the same period. Supply has fallen in recent years as it has become less attractive to be a landlord.

The annual increase in average rents in PCL was 1.2% in March, having risen from 0.8% in the same month in 2025. In POL, the figure was 2.8% compared to 1.2% a year ago.

Demand has also increased due to the spike in mortgage costs and the Middle East conflict, which means some people have made a temporary move back to the UK.

In March, the number of new prospective tenants was 16.6% higher than the same month in 2025.

## Prime Country Houses

The Country market was recovering from November's Budget in the early months of this year. Combined with a seasonal pick-up in activity in March, there was no notable drop off in Q1.

The number of offers made was 13% below the same month in 2024, but that compares to a 20% decline in February. Supply was more obviously affected than demand, with the number of new sales instructions in March falling by 17% versus the same month in 2024. In February, there was a smaller 12% drop.

Average prices in the Country fell 5.5% in the year to March 2026, which was a modest improvement on the 5.7% decline recorded in December. It means prices are now 13% lower than their pandemic-era peak in Q2 2022.

The annual price decline for flats (-3.8) and town houses (-5.1%) was lower than for farmhouses (-7.1%), underlining how demand has been stronger in needs-driven markets.

3 MONTHS TO MARCH 2026

PCL	▼	Sales -0.7%	▲	Rents 0.1%
POL	▲	Sales 0.1%	▲	Rents 0.5%

YEAR TO MARCH 2026

PCL	▼	Sales -4.7%	▲	Rents 1.2%
POL	▲	Sales -0.6%	▲	Rents 2.8%

Source: Knight Frank Research

3 MONTHS TO MARCH 2026

Prime Country House Index	▼	-0.1%
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YEAR TO MARCH 2026

Prime Country House Index	▼	-5.5%
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