

UK Residential Market Update



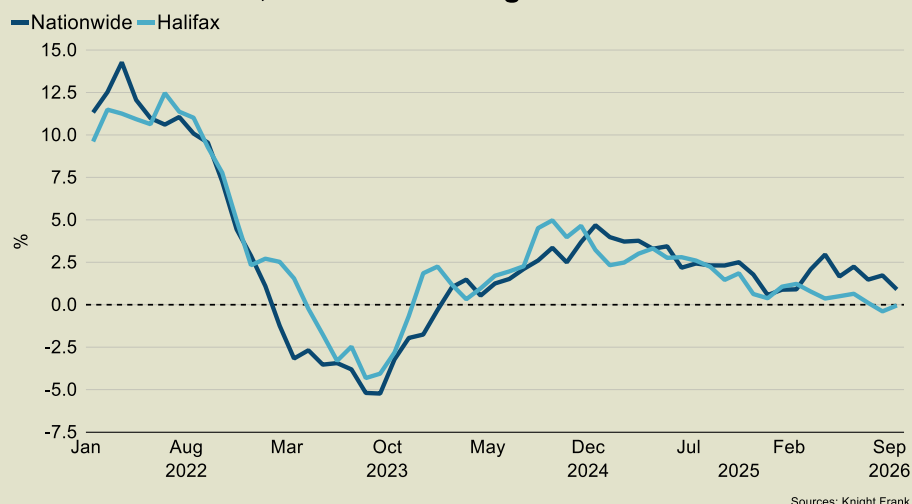
Q4 2026

Rising energy costs due to the Middle East conflict have continued to push inflation expectations higher in the second half of the year. The resulting increase in mortgage rates has reduced the number of mortgage approvals and meant UK price growth has stalled. Uncertainty ahead of the Budget has added to the mood of hesitation.

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Residential Prices

UK House Prices, Annual % Change



The impact of higher mortgage rates fed through to house prices gradually over the summer.

Mortgage offers last for up to six months, which meant deals based on lower rates that pre-dated the Middle East conflict only expired in September.

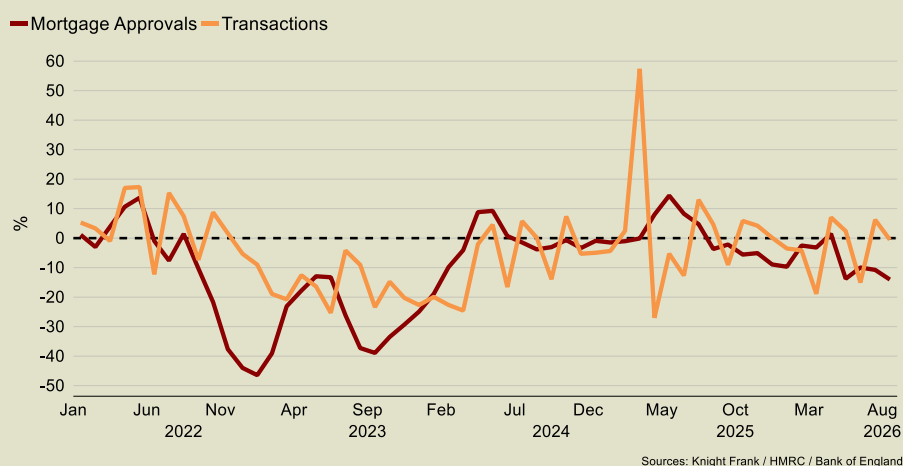
As the effect on buyers took its toll, downward pressure on house prices increased.

Average UK prices were flat in the year to September, according to the Lloyds house price index. That followed a decline of -0.4% in August. Meanwhile, Nationwide reported annual growth of 0.9% in September. Both indices are unlikely to change materially in the final months of 2026 as higher rates continue to squeeze buyers.

Residential Transactions

UK Mortgage Approvals and Transactions

% change versus the five-year average



Falling mortgage approvals indicate that transaction volumes are likely to decline in the final months of the year as the impact of the Middle East conflict takes its toll.

The number of approvals was 14% below the five-year average in August as sub-4% mortgages disappeared from the market.

Meanwhile, the number of transactions was flat using the same benchmark, supported by mortgage offers that pre-dated the conflict.

Financial markets are pricing in one more rate increase in 2026 and three next year. However, there is a high degree of uncertainty around what happens in 2027 due to the unpredictable trajectory of the conflict.

Prime London Sales

Demand strengthened in prime London markets over the summer as the Middle East conflict faded from the front pages, supported by mortgage offers that pre-dated the conflict and a desire to act before they lapsed.

In September, stronger demand helped deliver the first period of quarterly price growth (+0.3%) in prime central London for four years. Prices fell 2% over the year, which was the smallest annual decline in 18 months.

Prices in prime outer London, where demand has been more consistent and needs-driven, fell 0.6% in the year to September. Values haven't moved by more than 1% in either direction since May 2025.

Transaction numbers also stabilised as the backdrop became more favourable. Exchanges in PCL and POL in the year to September were 2.5% down on the previous 12 months, Knight Frank data shows. That compares to an equivalent drop of 14% in March.

Prime London Lettings

Landlords have faced a wave of extra financial pressures this year, including the introduction of the Renters Rights Act (RRA) in May.

Rents are being pushed higher as landlords set higher asking rents to compensate for the extra risk while others sell up, putting downward pressure on supply.

Average rents in prime outer London (POL) increased 3% in the year to September. That included a 2.3% rise over the last six months, which is the fastest pace of growth over a half-year period since January 2024.

Meanwhile, the number of new listings in POL fell 6.4% in the year to August compared with the previous 12 months.

Average rental values in prime central London increased 1.3% in the year to September. However, after falling at the start of the 12-month period, they have risen by 1.8% over the last six months, which is also the fastest pace over a half-year period since January 2024.

Prime Country Houses

The impact of rising mortgage rates and political uncertainty is being felt in the Country market, an area that covers a range of urban and rural properties above £750,000 outside London.

Average prices fell 4.2% in the year to September, which was a marginal improvement on the decline of 5% recorded in the year to June.

The number of exchanges in the Country was 2% lower in Q3 this year compared with last year. Meanwhile, the number of offers made was 10% lower.

“Whilst well-priced properties are generating good interest, overall sentiment is brittle due to the uncertainty of what will be in the Burnham administration's first Budget, on top of rising mortgage rates,” said James Cleland, head of Country sales at Knight Frank.

“With concern about which taxes may or may not rise in the Budget later this month, buyers and sellers are struggling to find a steady footing.”

3 MONTHS TO SEPTEMBER 2026				3 MONTHS TO SEPTEMBER 2026	
PCL	▼	Sales 0.3%	▲	Rents 0.9%	
POL	▲	Sales -0.4%	▲	Rents 1.0%	
YEAR TO SEPTEMBER 2026				YEAR TO SEPTEMBER 2026	
PCL	▼	Sales -2.0%	▲	Rents 1.3%	
POL	▲	Sales -0.6%	▲	Rents 3.0%	
				Prime Country House Index	▼ -1.4%
				Prime Country House Index	▼ -4.2%

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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