SAVILLS RESEARCH

UK Housing Market Update

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Weakness in the labour markets supresses the housing market, despite improving affordability

House prices fell by -0.8% in June on a seasonally adjusted basis, according to Nationwide. This was the biggest monthly fall since the period following the 2022 mini-budget, and leaves values down -0.6% since the start of the year. They are still up 2.1% on a 12 month basis however. Only two regions saw value growth during Q2: Scotland and the North East, up 0.8% and 0.4% respectively. The weakest performing regions were the West Midlands (-1.7%) and East Anglia (-1.3%).

Price growth is weaker than we expected, and comes despite improving affordability. Falling Mortgage rates have made it easier to buy a home, despite this, confidence in the housing market remains fragile. While the Monetary Policy Committee held rates at 4.25% in June, there is an expectation that rates will continue to trend downwards with two further cuts this year expected by Oxford Economics, ending the year at 3.75%. Many lenders have already priced in these cuts and some are offering sub-4% mortgages, although these lower-rates still require a significant deposit and fee.

The weaker than expected performance in the housing market is partially a consequence of a weak labour market, with unemployment rising to 4.6% in April, according the ONS, the highest rate in almost 4 years. The ONS estimates that number of people on payrolls fell by 55,000 in April. This weakness is primally driven by employers responding to increased NI contributions and a higher minimum wage, both of which came into force in April.

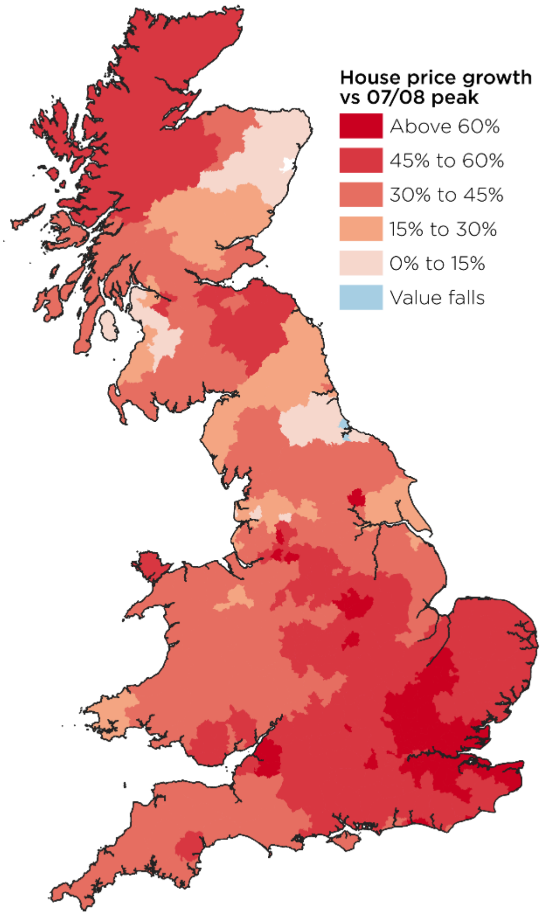
Value falls are also driven by a supply/demand imbalance as the latest RICS survey continues to show the majority of surveyors reporting falls in the number of new enquiries and rising levels of new instructions to sell. This limited demand is forcing sellers to be increasingly pragmatic.

Overall activity metrics also remain somewhat muted following the lowering of SDLT thresholds, with completions in May (the second month after the change to SDLT thresholds) still 16% lower than the 2017-19 average for the month. This was an improvement from the 35% below typical activity in the previous month – previous analysis of ours shows it typically takes 2-3 months for the market to recover from such SDLT changes. Next months data will help confirm whether we are following this typical pattern.

Forward activity metrics point to a slower recovery with the number of sales agreed in June dropping to 5% below 2017-19 levels for that month – the lowest figure in a year, according to TwentyCI. And while mortgage approval numbers did tick up in May, they still were 5% lower than the 2017-19 average for the month.

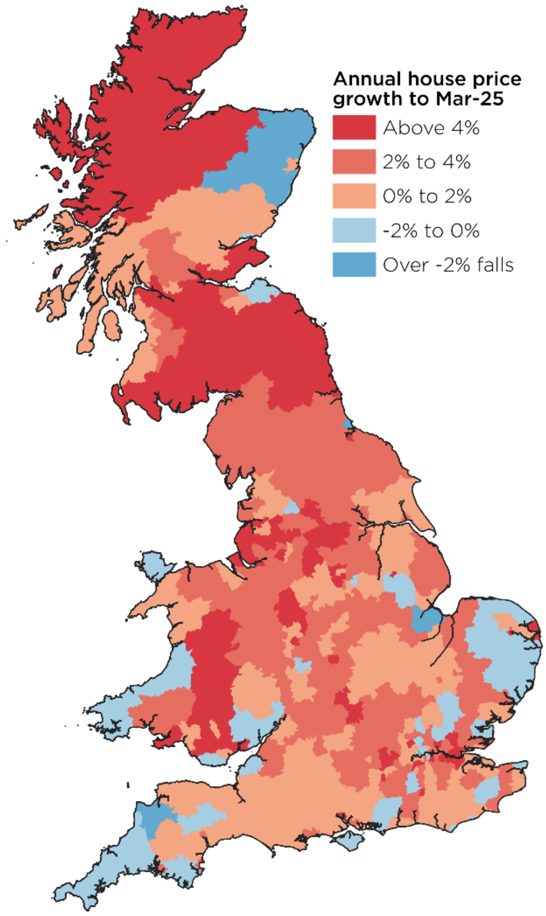
Localised but more lagged house price data from Land Registry shows the greatest annual value growth concentrated in Scottish and Northern local authorities, with Northern Lanarkshire seeing the largest growth in the year to March, up 9.8%, followed by Clackmannanshire (8.4%) and Newcastle upon Tyne (8.7%). While most of the weaker performing authorities were in the south, the largest annual fall was in Aberdeen (-3.9%) followed by Torridge (-3.8%) and Kensington and Chelsea (-3.3%).

Figure 1 House price growth to Mar-25 since 07/08 peak



Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

Figure 2 Annual house price growth to Mar-25

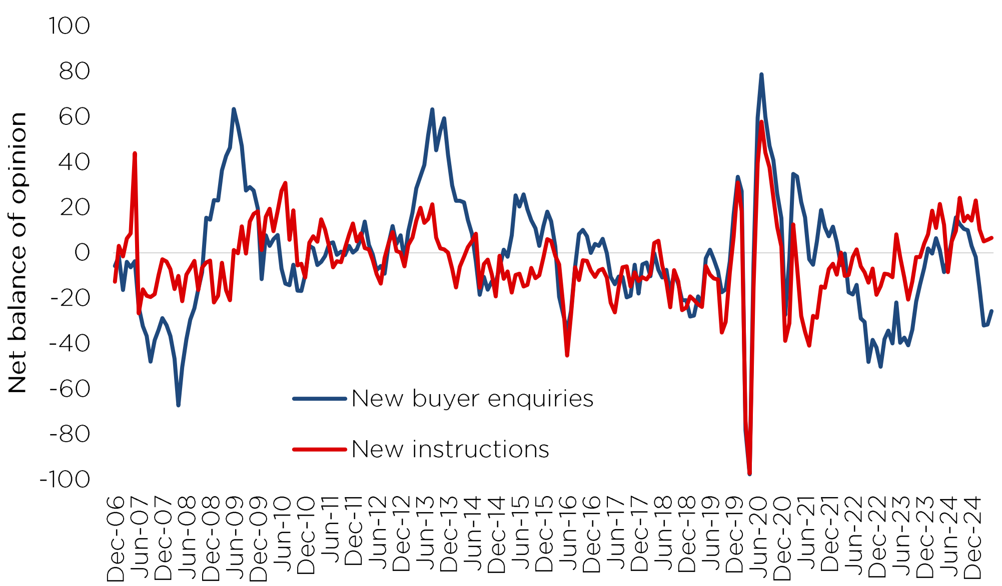


Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*

Slightly more surveyors reported rising numbers of buyer enquiries in May, but the majority still reported falls. Surveyors continued to report rising levels of new instructions.

This divergence in the levels of supply and demand has been a key driver in recent value falls – a trend likely to continue for the coming months until demand recovers.

Figure 3 Most surveyors continue to report falling demand and rising supply



Source RICS (seasonally adjusted)

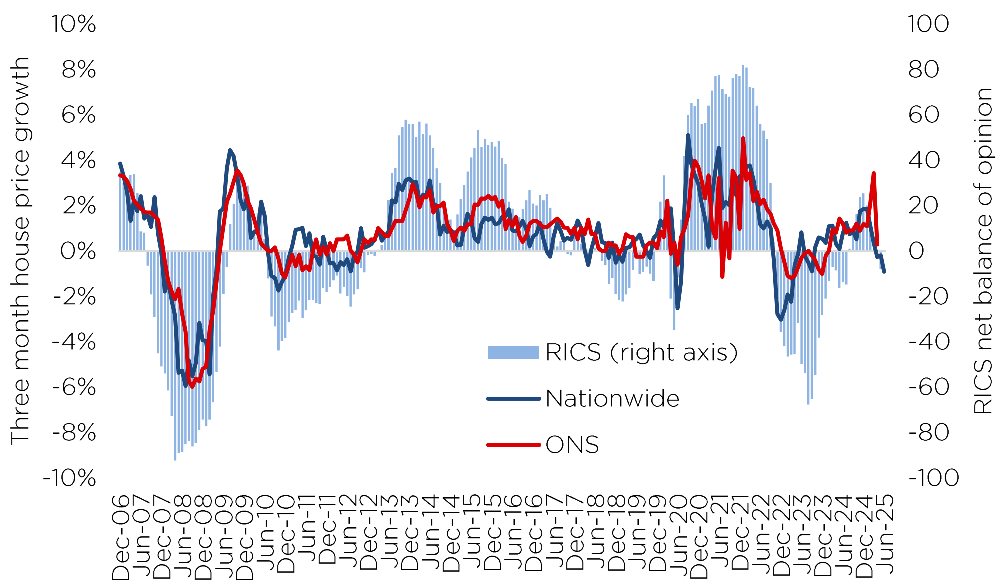
The RICS survey can be a good early indicator of house price movements which are later picked up by other indices.

RICS surveyor perceptions around price growth fell further into negative territory in May, meaning more surveyors saw price falls than price increases.

More timely data from Nationwide also shows that house prices fell by -0.9% in the three months to June, the largest quarterly fall since November 2023.

House price growth was flat on the more lagged ONS index, with 0.3% growth over the three months to April, following the SDLT change.

Figure 4 Most value metrics report falls

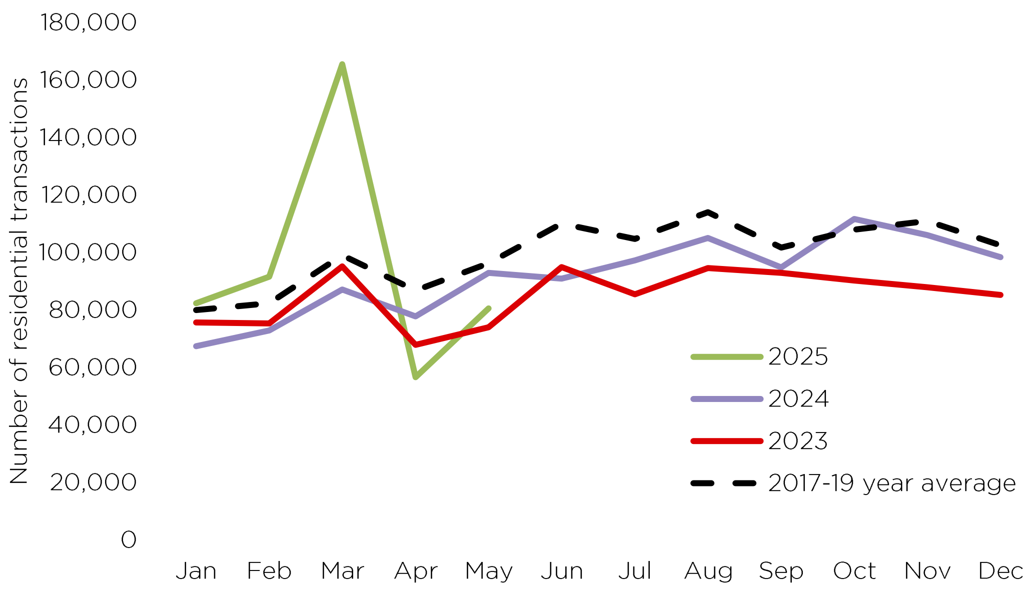


Source RICS, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Transactions showed a continued recovery after the end of the SDLT holiday. 80,530 transactions completed in May, according to HMRC. While this remains 16% below the 17-19 average, it is a 42% increase in volumes month-on-month.

It typically takes 2-3 months for the market to normalise after a SDLT adjustment, and we remain within this established pattern for now. Next month's data will be key to telling if completions are merely distorted by SDLT, or if there is more structural weakness in the market.

Figure 5 Transaction volumes continue to recover, but remain supressed



Source HMRC (non-seasonally adjusted)

Annual rental growth across the UK in May was 2.8% according to Zoopla, a slight uptick from 2.7% in April. This comes despite a widening gap between tenant demand and landlord instructions, according to RICS surveyors.

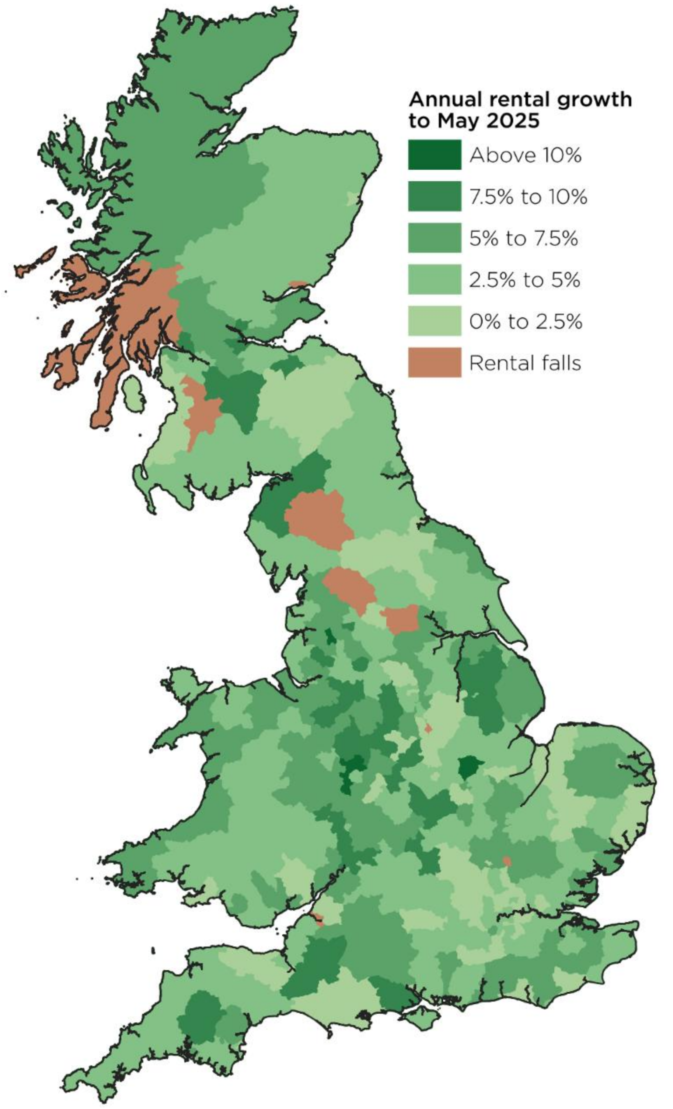
Rental growth continues to be mixed across the country. The North East and the North West saw the strongest annual rental growth of 5.0% and 4.1%, respectively. Yorkshire and the Humber saw the lowest rental growth of 0.8%, however this is now beginning to accelerate. Rental growth in London continues to accelerate (2.0%) while Wales continues to decelerate (3.7%).

Table 1 Regional rental growth to May 2025

	m/m	q/q	y/y
UK	0.4%	0.7%	2.8%
London	0.4%	0.6%	2.0%
South East	0.3%	0.8%	3.2%
East of England	0.5%	1.1%	3.6%
South West	0.5%	1.2%	3.1%
East Midlands	0.1%	0.7%	2.4%
West Midlands	0.4%	0.7%	3.4%
North East	0.2%	0.1%	5.0%
Yorkshire and the Humber	0.2%	-0.3%	0.8%
North West	0.2%	0.6%	4.1%
Wales	-0.3%	0.0%	3.7%
Scotland	0.6%	1.1%	2.4%

Source Zoopla Rental Index powered by Hometrack

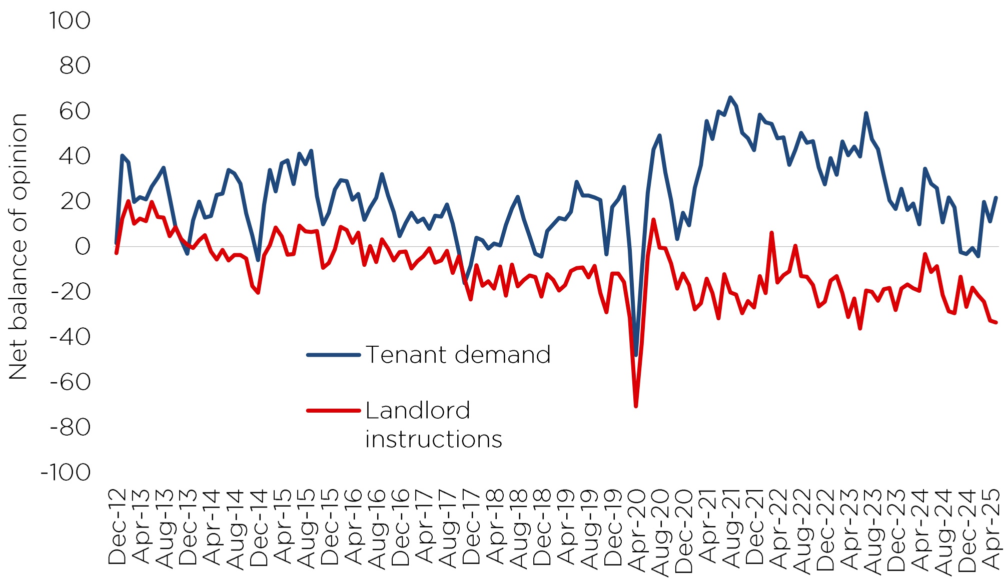
Figure 6 Annual rental growth to May 2025



Source Zoopla Rental Index powered by Hometrack

The RICS survey showed a dip in landlord instructions and a resurgence in tenant demand. This is the most positive tenant demand has been since September 2024. Landlord instructions have dropped further. The National Residential Landlord Association reported a marginal increase in landlord confidence, but the impact of this is likely to be limited. With the gap between supply and demand widening, we are likely to see rental growth slowly begin to accelerate again in some regions.

Figure 7 Landlord instructions remain low amid increasing tenant demand



Source RICS

Table 2 Rental forecasts (published November 2024)

Region	2025	2026	2027	2028	2029	5 years to 2029
UK	4.0%	3.5%	3.0%	3.0%	3.0%	17.6%
London	2.5%	2.5%	2.5%	3.0%	3.0%	14.2%

Source Savills

Table 3 Recent house price growth

	Nationwide (Regions to Q2 2025, UK to June 2025)			ONS (to April 2025)			Savills* (to March 2025)		
	m/m	q/q	y/y	m/m	q/q	y/y	m/m	q/q	y/y
UK	-0.8%	-0.9%	2.1%	-2.8%	0.3%	3.4%	0.1%	0.0%	2.5%
London	-	-0.8%	1.4%	2.3%	1.9%	3.2%	-0.3%	-0.8%	1.9%
South East	-	-0.3%	2.7%	-2.0%	-0.1%	3.0%	0.1%	0.1%	2.0%
East of England	-	-1.3%	1.1%	-3.8%	-0.4%	1.9%	0.1%	0.1%	1.7%
South West	-	-0.4%	2.5%	-4.0%	-0.4%	0.9%	0.1%	-0.1%	1.5%
East Midlands	-	-0.4%	2.0%	-3.4%	-0.3%	3.9%	0.0%	0.1%	2.0%
West Midlands	-	-1.7%	2.4%	-3.5%	-0.2%	2.5%	0.3%	0.6%	3.0%
North East	-	0.4%	5.7%	-7.4%	-0.7%	6.4%	0.2%	0.1%	3.7%
Yorks & Humber	-	-1.2%	2.3%	-5.6%	-0.3%	3.8%	0.2%	0.0%	3.3%
North West	-	-0.5%	4.3%	-5.8%	-1.0%	3.3%	0.3%	0.4%	3.8%
Wales	-	-0.1%	2.5%	0.5%	1.2%	5.4%	-0.2%	-0.3%	2.9%
Scotland	-	0.8%	4.5%	0.7%	2.2%	5.7%	-0.4%	-0.3%	2.9%

Source Savills using HM Land Registry and Registers of Scotland (6 month smoothed)*, Nationwide (seasonally adjusted), ONS (seasonally adjusted)

Table 4 Mainstream house price forecasts (published November 2024)

Region	2025	2026	2027	2028	2029	5 years to 2029
UK	4.0%	5.5%	5.0%	4.0%	3.0%	**23.4%**
London	3.0%	4.0%	3.5%	3.0%	2.5%	**17.1%**
South East	3.0%	4.0%	3.5%	3.5%	2.5%	**17.6%**
East of England	2.5%	5.0%	4.5%	3.5%	3.0%	**19.9%**
South West	2.5%	5.5%	5.0%	4.0%	3.0%	**21.6%**
East Midlands	4.0%	5.5%	5.5%	4.5%	3.0%	**24.6%**
West Midlands	4.5%	6.0%	6.0%	4.5%	3.0%	**26.4%**
North East	5.0%	6.5%	6.0%	4.5%	3.5%	**28.2%**
Yorks & Humber	5.0%	6.5%	6.0%	4.5%	3.5%	**28.2%**
North West	5.0%	7.0%	6.5%	4.5%	3.5%	**29.4%**
Wales	3.5%	5.5%	6.0%	4.5%	3.5%	**25.2%**
Scotland	5.0%	6.0%	5.5%	4.0%	3.0%	**25.8%**

Source Savills

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*Savills index is an unadjusted repeat sales index based on HM Land Registry and Registers of Scotland price paid data. Note that Savills national index (labelled UK) is for Great Britain, not including Northern Ireland.