Economic Research Unit

Economics Weekly

Bank of Ireland

UK housing market still in a fragile place

Tuesday's Nationwide index showed UK house prices broadly flat in August, up just 1.6% yoy, and follows downbeat readings from Lloyds (+0.1%) and Rightmove (-1%) that point to flat or negative inflation. The most recent Royal Institution of Chartered Surveyors (RICS) survey indicated a net majority of UK estate agents reported falling prices (-30%) in July, with expectations for sales and activity still very subdued. Mortgage approvals of 56,100 in July, were also down sharply by 15% yoy. That said, Zoopla reported property searches on their website rebounded in August (+7% yoy), a tentative sign that homebuyers were returning.

However, it now seems the initial US-Iran 'peace deal' and fall in oil prices towards $70pb in July merely provided a temporary reprieve for the housing market. Average two-year (75% LTV) quoted mortgage rates fell to a four-month low of 4.8% in July. However, renewed fears on the Middle East have resurfaced, leading markets to now almost fully price-in three 25bp rate hikes from the Bank of England to 4.5% over the next 12 months. Hence, 2-3 year swap rates have picked up towards 4.4%, close to their highest level in 2026, threatening a fresh squeeze in credit availability. UK Finance figures published this week demonstrated the negative impact of higher interest rates on affordability. The typical first-time-buyer in June faced mortgage payments equivalent to 22.6% of their gross income, the highest proportion since the GFC.

Nationwide index underlines fragile UK housing market conditions: Tuesday’s Nationwide index indicated prices rose just 0.2% in August and were up 1.6% year-on-year. While still in positive territory, the Nationwide measure lags behind the current pace of earnings growth of 4.1% (3.5% excluding bonuses), suggesting that a correction in affordability is underway in the UK housing market. In addition, the alternative Lloyds (+0.1%) and Rightmove asking price (-1.0%) measures indicate that UK house price inflation is already flat or negative (see chart below).

Royal Institution of Chartered Surveyors (RICS) survey points to further subdued activity: A net majority of estate agents (-30%) reported falling prices in July’s RICS survey, particularly in London (-53%) and the South East (-40%). The recent tightening of mortgage credit availability was also evident in falling new buyer enquiries (-28%) and agreed sales (-30%). Tuesday’s data also showed UK mortgage approvals down 15% year-on-year in July to 56,100, pointing to weaker activity levels ahead.

The RICS survey questions on housing supply painted a less pessimistic picture. New instructions to sell (-4%) fell only slightly, appraisals (+19%) remained in positive territory, and near-term sales expectations (-14%) signalled a softer pace of contraction. However, a loosening demand-supply balance will put downward pressure on prices. Notably, the average stock of homes for sale per surveyor rose close to a 10-year high in July.

Zoopla's report pointed to tentative signs of stability in August: Zoopla's August report indicated the average house price was now £273,000, up just 0.9% on the year. Also, sales in August were down 6% on the year. Zoopla estimated the number of homes listed for sale was up 5% on the year - due to the recent fall in demand and rise in mortgage interest rates. However, Zoopla pointed to a rebound in property searches on their website in August (+7% year-on-year) as a fledgling sign that homebuyers were now re-assessing their options and returning to the market.

Expectations for Bank of England rate hikes pose fresh risk to housing market: UK Finance figures published this week (September 1st) demonstrated the impact of higher interest rates on affordability. In June, the typical first-time-buyer faced mortgage payments equivalent to 22.6% of their gross income, a higher proportion than at any time since the global financial crisis (GFC).

The apparent Iran-US ceasefire and fall in oil prices towards $70 per barrel in July may have provided some temporary respite for the UK housing market. The average quoted two-year fixed rate on 75% loan-to-value (LTV) mortgage products fell to a four-month low of 4.8% in July, down from 5.14% in April.

However, oil prices are now back close to $95 per barrel. Markets are now almost fully pricing in three 25bp Bank of England rate hikes, taking rates to 4.5% by mid-2027, in their efforts to control CPI inflation. Consequently, two-year and three-year sterling swap rates have rebounded close to 4.4% in recent days, threatening a fresh squeeze in mortgage credit availability (see chart below).

For now, most commentators believe UK house price inflation will remain in positive territory, albeit still subdued. The Treasury’s survey of external forecasts showed that, on average, projections received in August pointed to house price inflation of 1.6% in 2026 and 2.2% in 2027. However, it remains to be seen how the UK housing market will adjust to a fresh rise in retail mortgage interest rates above 5%.

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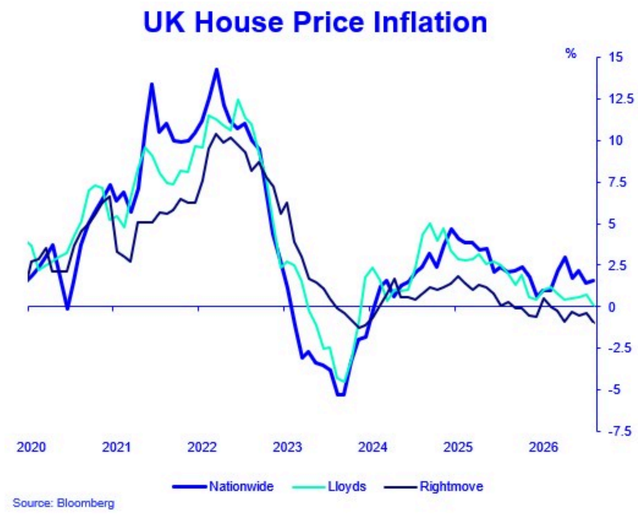

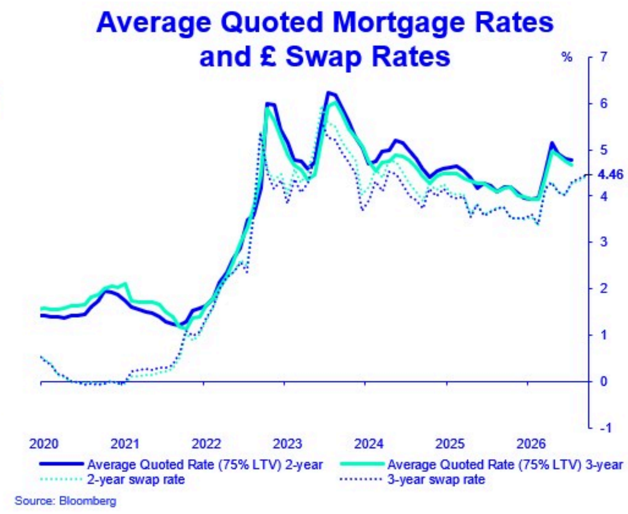

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