



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).

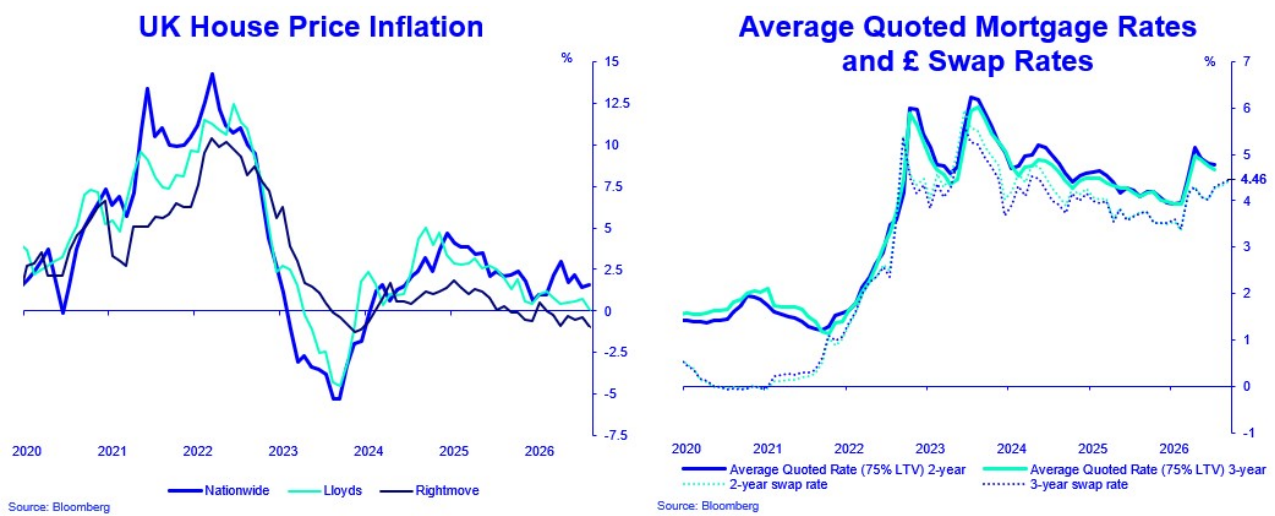
The apparent Iran-US ceasefire and fall in oil prices towards \$70 per barrel in July may have provided some temporary respite for the UK housing market. The average quoted two-year fixed rate on 75% loan-to-value (LTV) mortgage products fell to a four-month low of 4.8% in July, down from 5.14% in April.

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%.

Conall Mac Coille

**Group Chief Economist
Bank of Ireland**



Contact Us at economics@boi.com

Disclaimer

This document has been prepared by the Economic Research Unit at The Governor and Company of the Bank of Ireland (“BOI”) for information purposes only and BOI is not soliciting any action based upon it. BOI believes the information contained herein to be accurate but does not warrant its accuracy nor accepts or assumes any responsibility or liability for such information other than any responsibility it may owe to any party under the European Union (Markets in Financial Instruments) Regulations 2017 as may be amended from time to time, and under the Financial Conduct Authority rules (where the client is resident in the UK), for any loss or damage caused by any act or omission taken as a result of the information contained in this document. Any decision made by a party after reading this document shall be on the basis of its own research and not be influenced or based on any view or opinion expressed by BOI either in this document or otherwise. This document does not address all risks and cannot be relied on for any investment contract or decision. A party should obtain independent professional advice before making any investment decision. Expressions of opinion contained in this document reflect current opinion as at 3rd September 2026 and is based on information available to BOI before that date. This document is the property of BOI and its contents may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of BOI. Bank of Ireland is regulated by the Central Bank of Ireland. In the UK, Bank of Ireland is regulated by the Central Bank of Ireland and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Governor and Company of the Bank of Ireland is incorporated in Ireland with limited liability. Registered Office 2 College Green, Dublin, D02 VR66. Registered Number C1.

[Update My Preferences](#)