

UK Housing Market Update: Q1 2025

Hansen Lu, Aviva's Senior Economist, takes a look at the current UK housing market and what the opportunities and challenges are for financial advisers in Q1.

A Solid End to 2024

The UK housing market wrapped up 2024 on solid ground, with house prices growing between 3% and 5% for the year. But while prices saw a robust end to the year, the Royal Institute of Chartered Surveyors' measure of new buyer enquiries dipped in December, suggesting the latest acceleration in house price growth probably won't be sustained.

Housing Transactions and Mortgage Approvals

Housing transactions unexpectedly hit a 23 month high in October, before easing off a little in November. The timing suggests this wasn't directly linked to the announcement that Stamp Duty would rise in April this year. Still, as we move into the first half of 2025, activity on the market may see some more gyrations as buyers rush to complete their sales ahead of the tax change.

Credit Conditions and Economic Context

Despite the recent drama in the gilt market, mortgage rates rose only a little towards the end of 2024. Credit availability remained solid, with loan-to-value (LTV) ratios broadly steady and loan-to-income (LTI) ratios ticking up slightly. Recent market turmoil has more heavily affected long-term Gilt yields of 10 or more years, leaving 2 and 5-year fixed rate mortgages, and therefore the housing market, reasonably unscathed so far.

December also brought a dose of good news: inflation cooled to 2.5%, down from 4% a year earlier. This drop, partly thanks to lower-than-expected services inflation, calmed some nerves about the outlook for inflation. Overall though, compared to six months ago, forecasters still expect interest rates to fall slower and stay higher – dampening the prospect for a fresh reduction in mortgage interest rates.

Regional Disparities

When it comes to house price growth, the UK continues to see a clear North-South divide. London and the South East saw comparatively slower growth in Q4, weighed down by high house prices and stretched affordability. Since 2023, all regions have seen affordability improvements as interest rates have edged down and wages have grown faster than house prices. Still, house price-to-earnings ratios remain fairly high across the board, keeping many buyers on their toes.

Looking Ahead

Looking ahead at 2025, housing market forecasters expect to see fairly sluggish growth. After a likely surge in buyers completing ahead of April's stamp duty change, continued high house prices and interest rates are will probably stop the market from gaining momentum.

But in recent years, interest rates have emerged as the key driver of housing market performance. And the question of where interest rates will end up remains unanswered. This uncertainty will stay with us this year, leaving the possibility for big changes to the housing outlook too.

You can view the full data [here](#).