

Will house prices fall in 2024?

The property market didn't crash - as some expected - in 2023, but how will it fare in 2024 as the market anticipates interest rate cuts?



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The housing market has had a confident start to the year but most analysts still expect the market to drop in 2024.

The latest [Nationwide house price index](#) shows the strongest quarter for growth since the 2022 mini-Budget, despite a monthly decline in average values.

It comes as buyers have been boosted by falling [mortgage rates](#). Additionally, the latest [house price index from Halifax](#), which has tended to be more positive than [Nationwide](#) in recent months, suggests average values

were up 1.7% in the year to February and 0.4% higher than the previous month.

Meanwhile, [Rightmove's](#) latest house price index shows average asking prices also rose year-on-year for the first time in six months during February. It reflects what some commentators are describing as renewed confidence in the housing market after prices didn't crash - as many predicted - during 2023.

Mortgage lending hit record lows in 2023, according to UK Finance.

The banking trade body said the level of mortgage approvals to first-time buyers in 2023 was at its lowest level for a decade.

Home movers appear to have been hit hardest, with the mortgage approvals at their lowest level since the 1970s, UK Finance said in its fourth quarter household finance review for 2023.

Average prices did still drop last year though as the cost of living crisis and higher mortgage rates weighed on buyer budgets while sellers cut prices to attract interest.

The December [Nationwide House Price Index](#) shows average property prices ended the year down 1.8% annually. It was the first data showing how the market performed over the 12 month period.

However, the December [Halifax House Price Index](#) contradicted Nationwide, claiming that prices actually rose 1.7% during the year.

It may be a bit premature to see this as a sign of recovery though as [Halifax](#) attributed the increase to a lack of property stock rather than buyer demand improving.

Meanwhile, the latest [Office for National Statistics](#) (ONS) property market data - which tends to lag the market - shows [average house prices](#) dropped by 1.4% in the 12 months to December 2023.

That is at least an improvement on the 2.1% drop recorded in November 2023.

It is worth checking all [house price reports](#) as each relies on different data. While Halifax and Nationwide's indices refer to their own mortgage lending activity, the ONS gives a broader overview of all sales in the market, including from cash buyers.

More recent reports suggest that falling mortgage rates and lower [inflation](#) are helping buyers return to the market.

But average mortgage rates for two-year and five-year fixed deals are still around the 5% mark, significantly higher than the 2% rates seen at the beginning of 2022.

It is for this reason that property website Zoopla has said it still expects house prices to fall in 2024 as the market adjusts to the higher cost of borrowing.

As the [property market faces its biggest challenge in decades](#), what is the outlook for the rest of the year and into 2024?

Is there buyer demand for property?

High [mortgage rates](#) and the cost of living crisis dampened demand in the housing market for much of last year but the [Royal Institution of Chartered Surveyors](#) suggests confidence is returning amid hopes of interest rate cuts. Property website Zoopla has also said **the number of buyers home hunting has increased 10% annually at the start of 2024, helped by lower mortgage pricing and the prospect of interest rate cuts earlier than expected this year.**

Despite a rise in demand, Richard Donnell, research director for Zoopla, said UK sellers are typically having to accept offers around 95% of the asking price as buyer purchasing power has been reduced by higher mortgage rates.

"Our data shows we are still locked in a buyers market, so it's unlikely that we will see prices rise in 2024 at a national level. But at the same time, they haven't fallen much over the last 12 months, despite mortgage rates more than trebling since 2021," he says.

"We believe that house prices still need to adjust to higher mortgage rates, even though these are now falling and appear to be on track to get into the 4%-4.5% range later this year.

“This means sellers have to remain realistic on what someone will pay for their home and seek advice from an estate agent on how best to get their home ready to sell.”

Sarah Coles, a senior personal finance analyst at Hargreaves Lansdown, warns that there are risks to a ‘wait and see approach’ if buyers are hoping for mortgage pricing and house prices to fall further.

“Even if mortgage rates fall, if buyers and sellers return in their droves, it’s going to mean more competition, and it could push prices higher,” she says.

“What you save through a lower mortgage rate you could lose through higher prices.”

HOW IS THE HOUSING MARKET PERFORMING?

House prices experienced rapid growth throughout the pandemic thanks to a combination of [stamp duty cuts](#), low interest rates and the “race for space”. However, the combination of [rising interest rates](#) and the [cost of living crisis](#) started hitting buyer confidence last year – and house prices have been falling since.

“There are still significant challenges in saving up enough for a deposit and affording higher mortgage payments,” says Tim Bannister, Rightmove’s director of property science.

Nationwide said someone earning an average income and purchasing a typical first-time buyer home with a 20% deposit would spend 38% of their take-home pay on their monthly mortgage payment – well above the long-run average of 29%.

This is feeding into the housing market and sellers are cutting asking prices at the highest rate for five years to secure a sale, according to [Zoopla](#).

Buyers are securing an average of £18,000 off the asking price of a property, Zoopla said.

While [mortgage rates have been falling recently](#), pricing remains high and some lenders have pulled the top deals due to high levels of demand and amid increases in swap rates.

Brokers have warned that mortgage rates have gone back up slightly since the start of February 2024 as the cost of wholesale funding has increased and hopes of a sooner than expected [interest rate cut](#) from the [Bank of England](#) dissipate.

The average two-year fixed mortgage deal is currently 5.80% according to data from [Moneyfacts](#), while the average five-year fix is 5.39%.

Of course, when we talk about UK house prices, these are averages - and there are big regional variations across the country.

Average prices were down 4.8% annually in London in the 12 months to December 2023, according to the ONS data, while annual house price inflation was highest in the North West of England, where prices increased by 1.2%.

On a monthly basis, the South East of England's housing market experienced a 1.9% drop in December, while the West Midlands was the best performer with average prices up 2.6%.

Abi Hookway, wealth coach and director at property investment firm Redmayne Smith, is bullish about the opportunities: "This data reflects the huge property demand in the north of England, which provides a great opportunity for property investors who are seeking incredible capital growth.

"Furthermore, as the Bank of England has frozen the interest rate at 5.25%, we can expect this to start decreasing over the next 12 months, which will therefore see house prices increase at an even faster pace."

Figures from the Bank of England suggests mortgage approvals hit a six-month high in December, so there could be a busy few months ahead for the property market.

What will happen to house prices in 2024?

Much of the direction of the housing market and property prices will depend on mortgage pricing.

Some analysts have revised their forecasts as inflation slows and some of the best buy mortgage rates have fallen below 4%.

Estate agency and property brand Knight Frank had previously predicted a 4% drop in prices but now believes they will actually rise by 3% this year.

The [Office for Budget Responsibility](#) (OBR) has said it expects average prices will have fallen by 2% by the end of 2023, which is less severe than the 5% it previously predicted.

Meanwhile, analysis by Go.Compare suggests that if average mortgage pricing falls to 4.3%, homeowners could see 10.5% added to their house price, Go.Compare said.

That is a pretty bullish view though compared with other forecasts.

Zoopla has predicted that UK house prices will fall by 2% during 2024 based on mortgage rates dropping to 4.5% by the end of the year and remaining there into 2025.

The property website also estimates there will be one million sales in 2024, but it suggests this could be higher if mortgage rates fall back towards 4%

Rightmove has forecast that asking prices will drop by 1% as sellers become more realistic to secure a sale amid higher borrowing costs for buyers.

Analysts at Capital Economics predict house prices will fall by 5-6% by mid-2024, because "we think that mortgage rates will stay around their current high level until next summer".

Lloyds Banking Group thinks prices will continue to slide, and will not start to recover until 2025. It is predicting a decline of 2.4% in 2024.

Halifax has predicted that [house prices will fall between 2% and 4% in 2024](#) as economic market conditions and "affordability pressures" continue to put pressure on the property market.

In a separate report, Nationwide said it also expects a single digit [decline in house prices](#) in 2024 - or for them to simply remain flat.

Savills estimates that the market will "bottom out" around the middle of this year.

Its latest five-year forecasts predict the average house price will fall by 3% in 2024 but will be followed by price increases in 2025, 2026, 2027 and 2028 as affordability pressures slowly ease.

Prime central London is expected to see the least downward pressure on prices, given much less reliance on mortgage debt and the relative value on offer to a range of wealthy domestic and international buyers.

Transactions are expected to remain at around 1.01m in 2024, rising to 1.16m per year at the end of the forecast period in 2028, as mortgage buyers gradually return to the market.

"Interest rates are expected to have peaked and the worst of the house prices falls look to be behind us, but the first cut to rates still looks to be some way off," says Lucian Cook, head of residential research at Savills.

"This means continued affordability pressures are likely to result in further modest house price falls over the first half of 2024, resulting in a peak-to-trough house price adjustment in the order of minus 10%.

"The expectation of a gradual reduction in rates suggests a progressive restoration of buying power and steady recovery in demand."