



# The Housing Brief

SPRING 2026

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# Executive Summary

## Q1 2026: FROM EARLY OPTIMISM TO RENEWED VOLATILITY



**Helen Charlesworth**  
Chief Executive

**The first quarter of 2026 was another reminder of how sensitive the housing market remains to developments beyond its borders.**

After a prolonged period of uncertainty, January and early February brought a welcome sense of optimism. Mortgage rates eased back, affordability pressures began to loosen, and confidence quietly returned across both the sales and lending markets.

For a short while, it felt as though the market had been given some much-needed breathing space.

That sense of progress, however, was soon tested. Escalating geopolitical tensions towards the end of February fed through to inflation expectations and mortgage pricing, unwinding some of the early-year gains. Yet rather than freezing, the market adjusted - a response that has become increasingly familiar in recent years.

**“Across the sales market, activity held up better than many might have expected.”**

While demand cooled slightly in March, sales agreed remained relatively strong, supported by

buyers pressing ahead with cheaper mortgage deals secured earlier in the year.

The same theme of adjustment runs through the mortgage market.

**“A bumper year for remortgaging has helped keep activity moving as borrowers act earlier to manage the prospect of higher repayments.”**

Extra borrowing has become less common, affordability is stretched again for first-time buyers, and equity is increasingly being built through repayment rather than rising house prices. The market continues to function, though within noticeably tighter financial constraints.

In the lettings market, pressure is beginning to build once more. Tenant demand has picked up as higher mortgage rates limit access to homeownership and increase landlords' costs, placing renewed upward pressure on rents. Investors, however, remain cautious rather than expansionary, with restructuring more common than fresh investment.

Taken together, these trends suggest a housing market that is more robust

than headline movements might imply, but one where adaptation increasingly comes with trade-offs. Longer mortgage terms can ease monthly pressures but raise costs over the life of a loan; higher interest rates reduce the share of household income flowing into the wider economy; and thinner margins for developers leave less room for error elsewhere in the system. Resilience is being maintained, but not without consequence.

This backdrop is particularly important when considering housing policy. A decade on from its introduction, the second home stamp duty surcharge highlights how measures designed for a very different market can interact differently with today's conditions. In a higher rate environment, where finance costs matter more and developer margins are tighter, the loss of investor demand has weighed on development viability, turning the surcharge into a meaningful constraint on housing supply.

After what feels like several years of upheaval, the housing market would benefit from greater long-term clarity and stability. But stability should not be mistaken for rigidity. As conditions evolve, policy needs to move with them. Q1 2026 showed that the market can adjust quickly; the challenge now is ensuring the framework around it keeps pace.

4%

fall in buyer demand across Great Britain as mortgage rates rose in March

the average time to sell a home in Q1 2026, ten days longer than the same period last year

81 days

24%

rise in tenants searching for a new rental home in March year-on-year, the largest increase since records began

of homes in Great Britain were bought by landlords in Q1 2026, the lowest first quarter share on record

10.8%

18.5%

increase in mortgage applications in March year-on-year

of remortgagers secured rates above 4% in March, up from 78.2% earlier in the year

98.3%

## Sales Market

A TENTATIVE RECOVERY MEETS NEW HEADWINDS

“January and February saw a modest rebound... by March, conditions had cooled.”

**Falling mortgage rates through January and February improved affordability and encouraged more buyers back into the market after a subdued end to last year.**

That momentum was disrupted in March as escalating tensions in the Middle East fed quickly through to mortgage pricing, reversing some of the early-year gains. So far, however, the impact on activity has been slower to materialise. Demand and sales agreed held up through the end of the quarter, largely supported by buyers who had already locked in cheaper mortgage deals earlier in the year.

### Q1 in numbers: what changed, and when?

The first quarter of the year can be split into two clear phases.



January and February saw a modest rebound, particularly when compared to the run-up to the end of the stamp duty holiday last year. Buyer demand recovered from late-2025 lows, with applicant registrations rising 1.5% year-on-year in February and sales pipelines beginning to refill.

By March, conditions had cooled. Buyer demand across Great Britain dipped 4% year-on-year, as rising mortgage rates prompted some households to pause. But demand remained fairly strong in historic terms, with applicant numbers some 17% higher than in March 2019.

Sales held up better than demand alone would imply. Across Great Britain, the number of sales agreed in March was just 2% lower than a year earlier, an improvement on the 4% annual fall recorded in February. This suggests that many buyers were progressing with mortgage deals secured earlier in the year – or even back in 2025 – before rates moved higher.

The clearest adjustment came from sellers. New property instructions fell 7% year-on-year in March, the largest annual decline in almost a year, as confidence softened. Even so, the market remains well-stocked, with around 40% more homes available for sale in Q1 2026 than in 2019, giving buyers greater choice.

+40%

more homes available for sale than in 2019

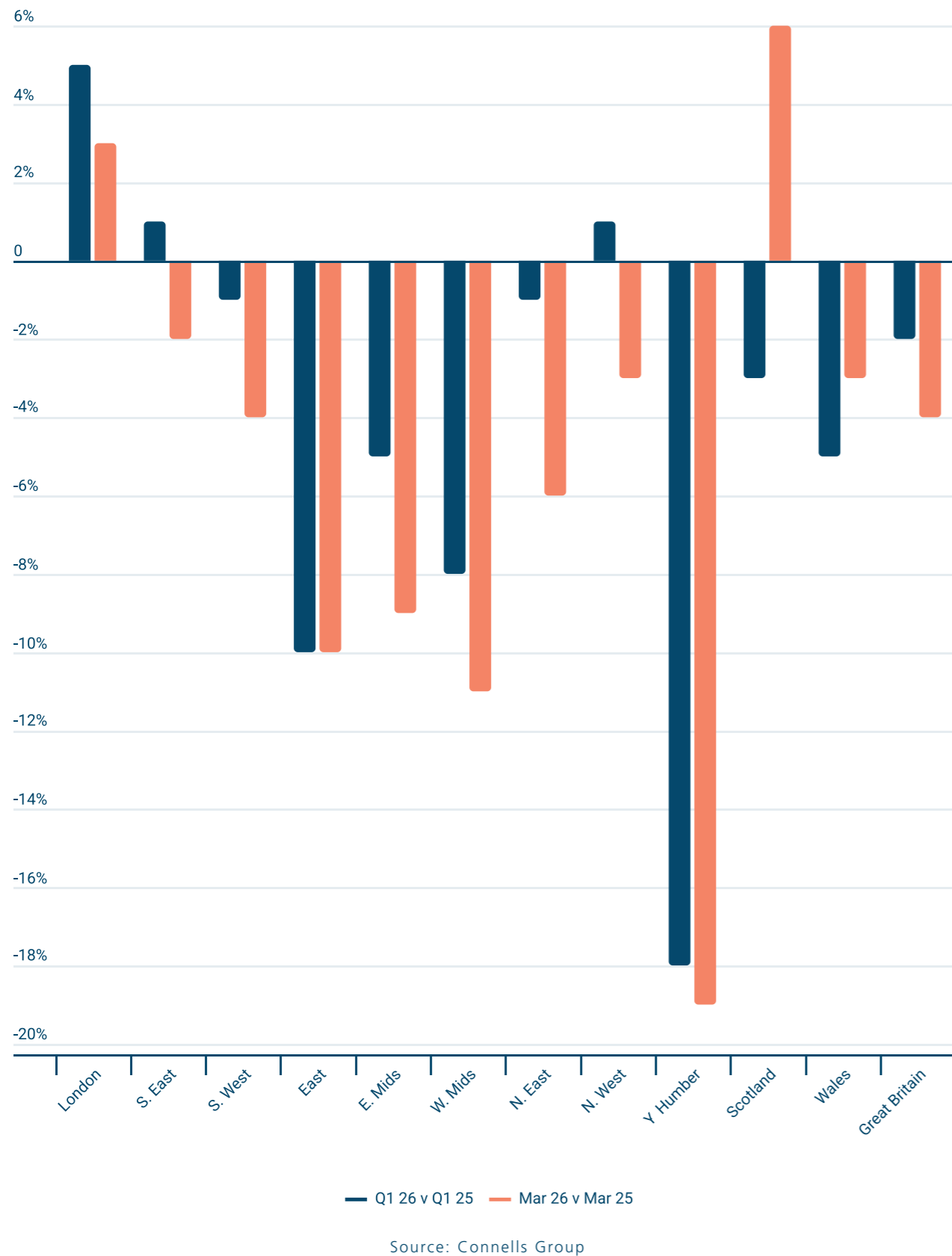
### Regional markets: a reversal of fortunes

Beneath the national averages, buyer demand rebounded most clearly in some of the UK's weakest recent markets - led by London, and to a lesser extent, the South East. These regions have lagged for much of the past few years as higher mortgage rates weighed more heavily on affordability.

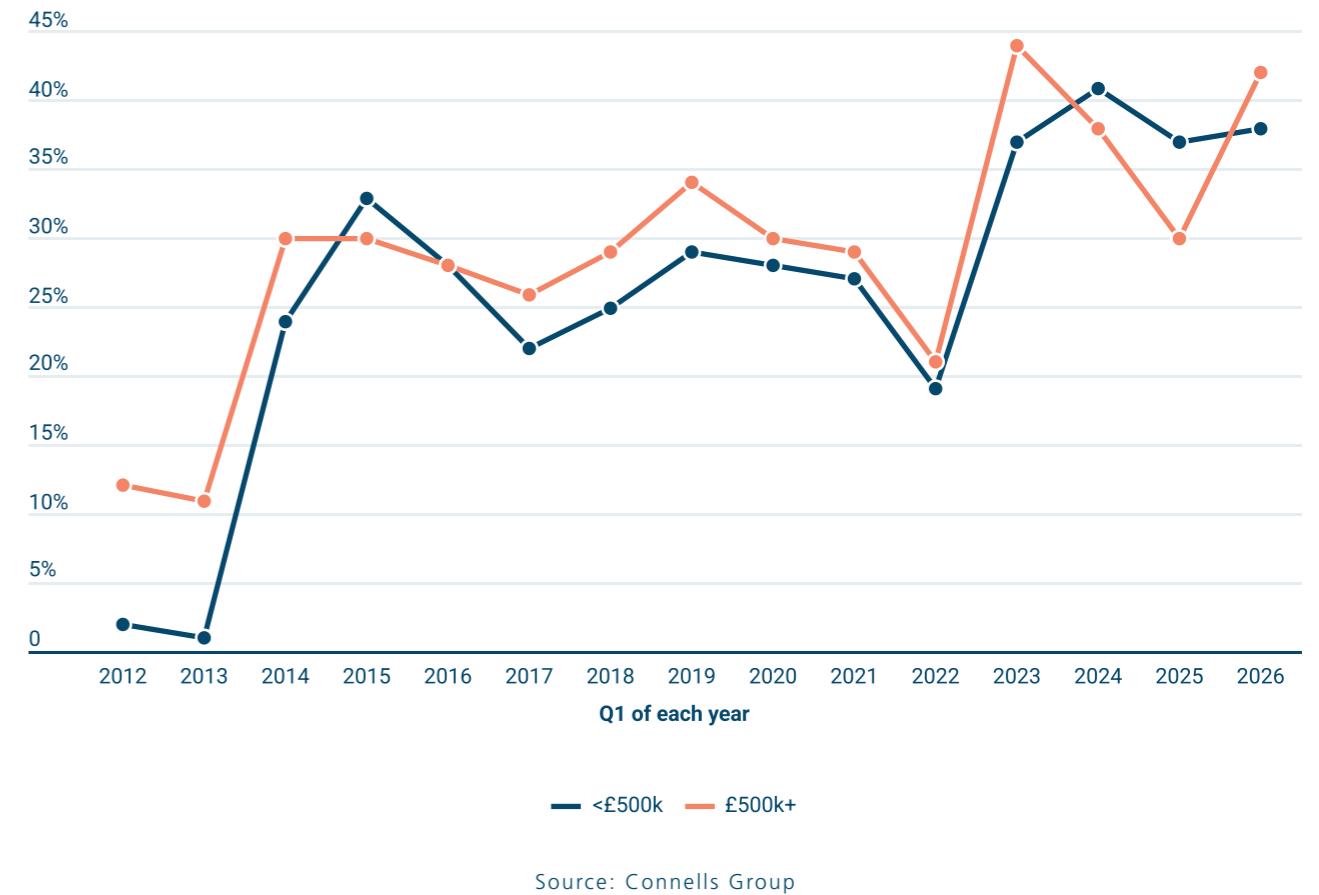
During Q1 as a whole, applicant registrations in London were 5% higher than a year earlier, with the South East also recording modest growth. This marks a clear change in direction after a prolonged period of underperformance, and is in contrast to much of the North and Midlands, where demand eased over the quarter. These regions had been the main drivers of activity and price growth in recent years and, having been less constrained by affordability, saw less benefit from the fall in mortgage rates at the start of the year.

Momentum softened across most regions in March as borrowing costs moved higher again, but the slowdown was not uniform. London and Scotland were the only

## CHANGE IN THE NUMBER OF APPLICANT REGISTRATIONS



## SHARE OF HOMES SOLD FOLLOWING A PRICE REDUCTION (ENGLAND & WALES)



two regions to record year-on-year growth in buyer demand in March. In fact, more buyers were looking to purchase a home in London last month than in any March since 2021. By contrast, many Northern and Midland regions, which have seen strong activity and price growth over the past few years, saw demand fall back.

The recovery in London is being driven overwhelmingly by first-time buyers, particularly in outer parts of the capital, rather than movers. Affordability constraints, coupled with onerous stamp duty costs, continue to limit activity further up the ladder.

First-time buyers bought 50% of all homes sold in the capital during Q1 2026, rising to a record 55% in March alone. Their prominence reflects smaller recent increases in mortgage rates for higher loan-to-value borrowers and reduced competition from investors. By contrast, movers remain more sensitive to changes in borrowing costs.

### Pricing pressures: concentrated at the upper end

Pricing has continued to adjust this year, with price reductions becoming

more common, particularly in higher price bands. Across England and Wales, 38% of homes sold in Q1 2026 followed at least one price reduction, marginally higher than 37% a year earlier.

Pressure is clearly concentrated further up the market, with homes sold at £500,000 and above having seen the greatest shift. In Q1, 42% of £500k+ properties were sold after a price reduction, a 12% increase year-on-year. This segment is dominated by upsizers, where larger mortgages and higher borrowing costs have had the greatest impact on affordability.

**44%**  
March '26

**39%**  
Dec '25

**Share of homes in England & Wales selling at or above their final asking price**

Below £500,000, pricing has been more stable. Around 38% of sub-£500k homes sold following a reduction, little change on last year, supported by continued first-time buyer demand.

Despite this, pricing outcomes for sellers improved as the year progressed. By March, 44% of homes in England and Wales sold at or above their final asking price, up from a low of 39% in December. This suggests much of the repricing had already taken place last year.

Discounting also remained modest by historical standards. Based on the final asking price at the point of sale, which may already incorporate earlier reductions, homes sold for an average of 1.5% below asking across England and Wales in March, down from a recent peak of 2.1% in December and below the 2019 average of 1.9%.

Discounts remain most pronounced at the top of the market. Properties priced above £1 million sold for an average of 3.5% below final asking price. In the £500,000 - £1 million bracket, average discounts widened to around 2% in March, up from 1% a year earlier, reflecting ongoing affordability pressures among family movers.

**Transaction times: improving at the front end, still challenging at completion**

Weak conditions last autumn are still casting a long shadow over transaction times, inflating how long homes appear to be taking to sell. In Q1 2026, the average time taken to sell a home rose to 81 days, ten days longer than the same period last year. However, this largely reflects the market weakness in 2025, when Budget uncertainty lingered and many homes sat on the market for extended periods. Indeed, 68% of homes sold in Q1 were first listed last year, pushing up average selling times.

More recent data suggests improvement. By March, the average home sold that month had come onto the market just 61 days earlier, indicating that much of the slower moving stock from last year has now been absorbed.

Selling times continue to vary by property type. Flats are taking around a month longer to sell than houses on average, reopening a gap that had narrowed during 2025, when higher mortgage rates pushed buyers towards more affordable apartments. However, falling mortgage rates early in the quarter improved affordability, allowing more buyers to access houses or

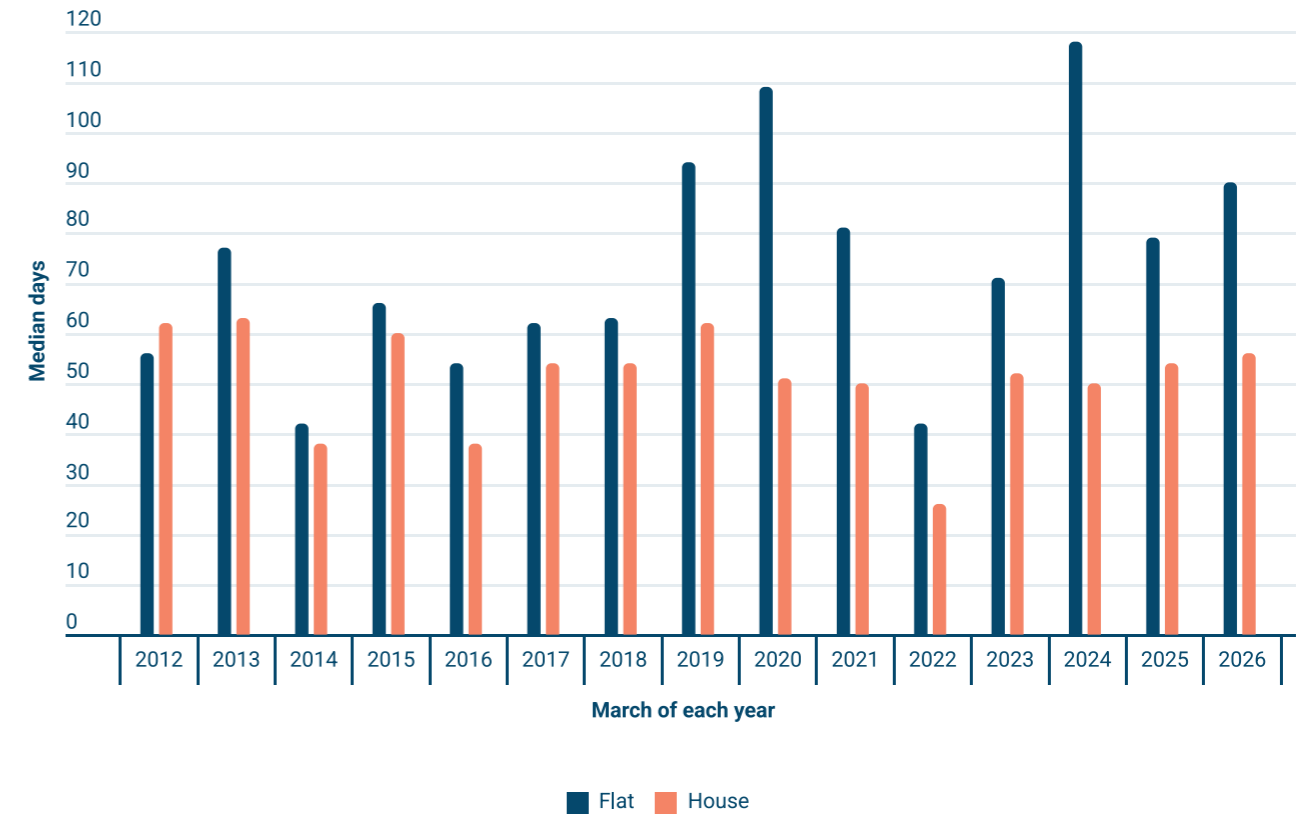
trade up, with houses selling more quickly than flats.

While selling times are improving, the completion process remains a structural challenge. The median time between sale agreed and exchange has risen to around 130 days across England and Wales, nearly double pre-pandemic levels. Delays are most pronounced for leasehold homes, which now take close to 150 days on average, compared with around 126 days for freehold properties, reflecting additional legal checks and documentation.

The longer tail of the market continues to grow. More than 20% of transactions now take over six months to exchange, the highest share on record. These extended timelines increase fall-through risk and continue to constrain overall market activity, even as demand and selling speeds begin to recover.



**AVERAGE NUMBER OF DAYS BETWEEN INSTRUCTION & SALE AGREED**



Source: Connells Group

**Outlook: Fragile signs of improvement**

There are reasons to be cautiously optimistic about the direction of the sales market, though progress remains highly dependent on global developments and their implications for borrowing costs, sentiment and affordability.

Developments in the Middle East remain central, given their influence on inflation and interest rate expectations in the UK. With events changing rapidly, the recent announcement of a ceasefire, while highly fragile,

has eased pressure on financial markets, with expectations shifting from two rate hikes this year to just one by year end, increasing the likelihood that mortgage rates fall modestly from current levels.

Any easing in borrowing costs would provide support to the housing market, particularly for movers at the more affordability-stretched end of the market. That said, some short-term damage has already been done. As pipelines of

cheaper mortgage deals worked through the system, activity held up through March, but a softer patch now looks likely before conditions could improve again.

Mortgage rates are unlikely to return to the lows seen earlier in the year, but the market has shown it can function at current levels. Against this backdrop, modest house price growth, likely around 2%, remains the most likely outcome for the year ahead.

# Rental Market

PRESSURE BUILDING AGAIN

“6% of homes let above their advertised rent in Q1 2026, down sharply from 56% in Q1 2021”

**Rents remain high in absolute terms and, after declining through much of 2025, the pace of growth is now picking up again.**

A rebound in tenant demand, rising costs for landlords and constrained supply are all feeding into firmer conditions, particularly in parts of the market that saw the sharpest cooling last year.

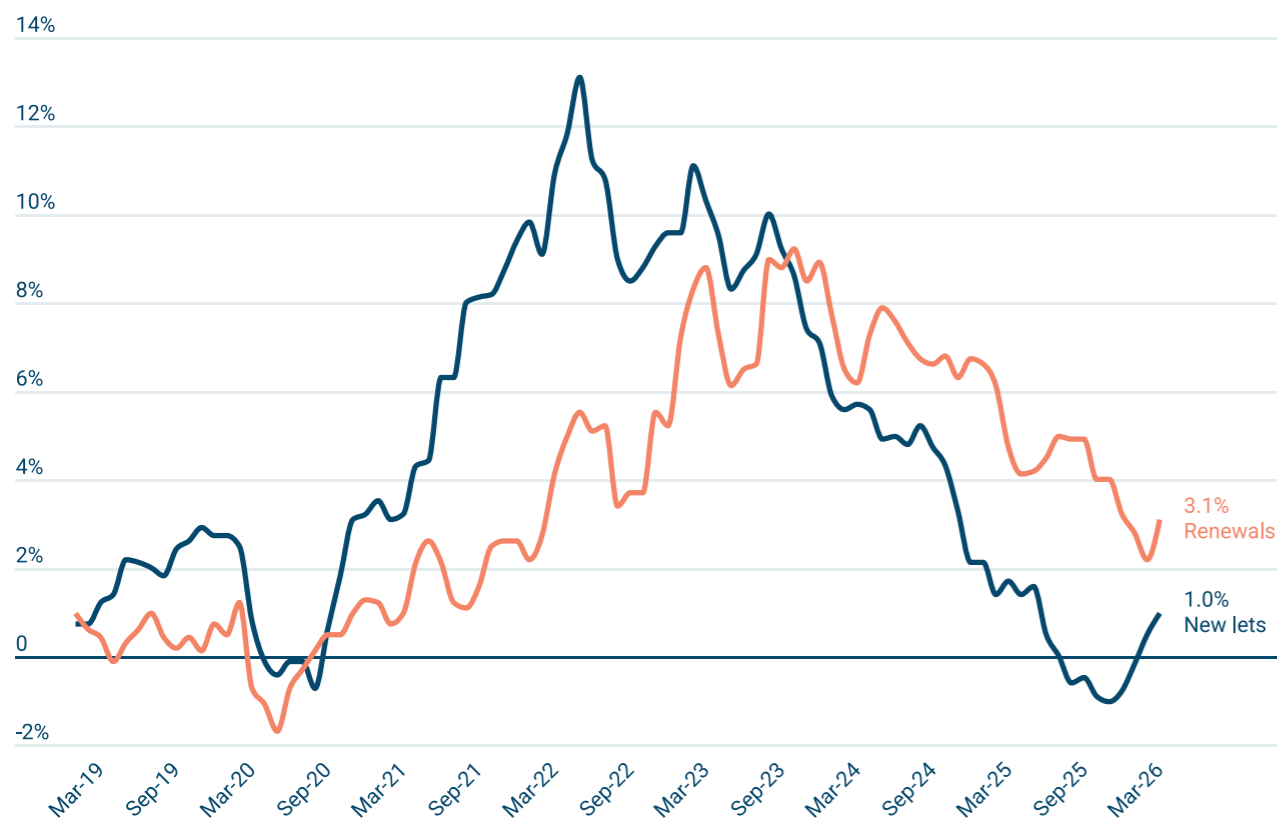
**Rental growth: London sets the pace**

Rental growth has started to accelerate again after falling back through much of 2025, particularly on newly let homes. Across Great Britain, our lettings index shows that rents on new lets began rising again in February, with the annual pace of growth doubling month-on-month by March to 1.0%. This marks a

clear change in direction following last year's declines.

The recovery has been most pronounced in Inner London, where rents rose 4.1% over the year to March, reversing the falls recorded earlier in 2025. Much of this rebound reflects base effects, given how far rents softened in the capital last year. However, there are also early signs that demand is being

YEAR-ON-YEAR RENTAL GROWTH (GREAT BRITAIN)



Source: Connells Group

17,474

new buy-to-let limited companies were set up in Q1 2026...

4.7%

...up year-on-year and more than four times the number of incorporations seen a decade ago

supported by more households relocating from the Middle East. Outside London, rental growth remains more subdued, but the broader trend is now pointing upwards rather than down.

Tenant demand has strengthened sharply. In March, the number of tenants starting a search for a new rental home increased by 24% year-on-year, the largest rise since records began. Every region recorded double-digit growth in demand.

At the same time, supply has continued to lag. There were 1% fewer homes available to rent across Great Britain than a year earlier, and stock levels remain around 33% below those seen in 2019.

Rents on renewals are also beginning to pick up pace again. In March, renewal rents rose 3.1% year-on-year, up from 2.2% in February, signalling the first notable acceleration for some time. This suggests landlords are increasingly able to secure higher rents across existing tenancies as market conditions tighten.

While the direction of travel echoes the early stages of the 2022–23 rental surge, the pace of growth is far more subdued. Rising mortgage rates are once again limiting the pool of would-be buyers, supporting tenant demand and underpinning rents. However, unlike the rapid repricing seen two years ago, affordability constraints mean

landlords have less room to push up rents. Competitive bidding has eased materially, with just 6% of homes let above their advertised rent in Q1 2026, down sharply from 56% in Q1 2021.

**Buy-to-let investment: subdued, but regionally selective**

Despite stronger rental growth, new buy-to-let investment remains muted. High stamp duty costs and higher mortgage rates continue to weigh on returns, particularly in lower-yielding markets, while regulatory uncertainty is adding a further layer of caution. This is most apparent among smaller investors. In Q1 2026, landlords bought 10.8% of all homes sold across Great Britain, the lowest first quarter share since our records began more than two decades ago.

That said, investor behaviour is increasingly selective rather than absent. Northern regions have bucked the national trend, with the share of homes bought by landlords rising from 13.8% in Q1 2025 to 14.6% in Q1 2026. Higher yields provide greater headroom here, and many investors have also benefited from stronger capital growth in recent years, helping to cushion the impact of higher borrowing costs. Elsewhere, activity remains subdued, particularly in higher priced southern markets.

**Landlord sales: modest rise, no rush for the exit**

Landlord sales have edged higher over the past year, but not to the levels seen during the disruption of 2022 and 2023, when the impact of earlier mortgage interest relief changes met surging interest rates and triggered widespread exits.

In Q1 2026, landlords accounted for 14.7% of all sellers across England and Wales, up from 12.5% a year earlier. However, the increase has been uneven. London, despite being the lowest yielding region in the country, has seen only a limited rise in landlord sales. Investors already account for around a quarter of all sellers in the capital, the highest share nationally. However, falling house prices through 2024–2025 alongside a renewed pickup in rents in the capital appear to have encouraged many to hold rather than sell.

By contrast, the North West has recorded the largest year-on-year increase in landlord sales, reflecting more active turnover where prices have risen. Overall, the increase in sales points to gradual attrition rather than a wholesale retreat.

**Incorporation: restructuring, not exit**

Rather than leaving the market, many landlords are choosing to restructure. Incorporation continues at record levels as existing investors

reorganise portfolios to manage tax and financing pressures more effectively.

Crucially, the majority of these incorporations reflect existing landlords transferring properties into corporate structures, rather than new entrants expanding the size of the private rented sector. This points to a market that is becoming more professionalised, even as overall investment volumes remain subdued.

### Adapting to higher rates: managing cash flow

Rising mortgage rates are once again shaping landlord behaviour. By early April, 42% of new buy-to-let lending

was agreed at rates of 5% or above, up from 11% in January and back to levels last seen in late 2023. The average mortgage rate secured by landlords has risen to around 4.8%, up from 4.2% in January, materially increasing costs.

In response, landlords continue to prioritise cash flow. More than three-quarters of new buy-to-let lending (78%) is now on an interest-only basis, the highest share since rates peaked in 2022. Among landlords remortgaging onto interest only deals, four in ten injected cash, paying down an average of £30,100. This is particularly true for investors with lower levels of equity as they try to keep monthly payments affordable and meet lender affordability tests.

There has also been a shift towards shorter mortgage fixes, mirroring behaviour seen in previous rate rise cycles, as landlords look to retain flexibility and refinance should borrowing costs ease.

### Ahead of the Renters' Rights Act: wait and see behaviour

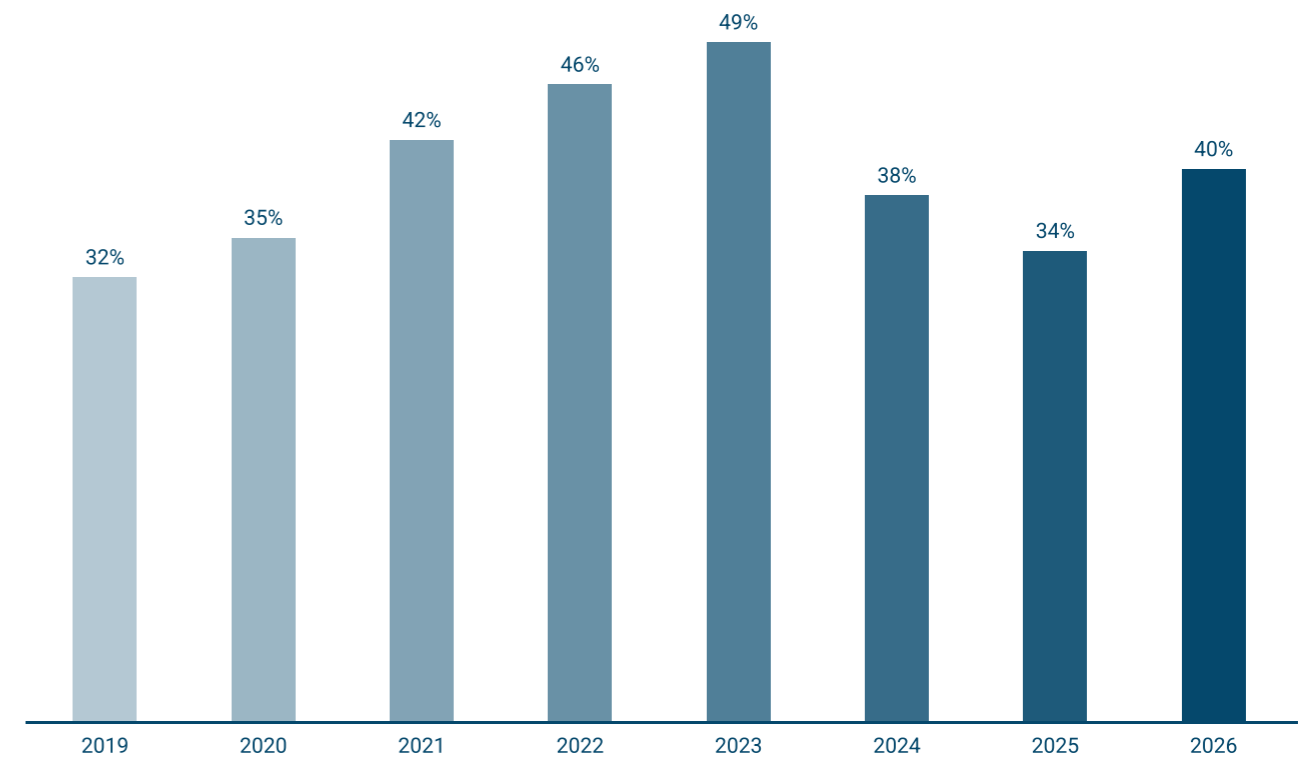
With the Renters' Rights Act due to come into force in May, there is little evidence of landlords taking pre-emptive action. There has been no widespread effort to push through rent rises ahead of implementation, nor any sign of a mass sell-off.

Instead, most landlords appear to be taking a wait-and-see approach,

balancing higher costs with tenant retention. One immediate impact is likely to be on how rents are set, rather than how much they rise. Once landlords are no longer able to accept offers above the advertised rent, pricing is likely to shift towards higher initial asking rents, although achieved rents will likely remain more stable.

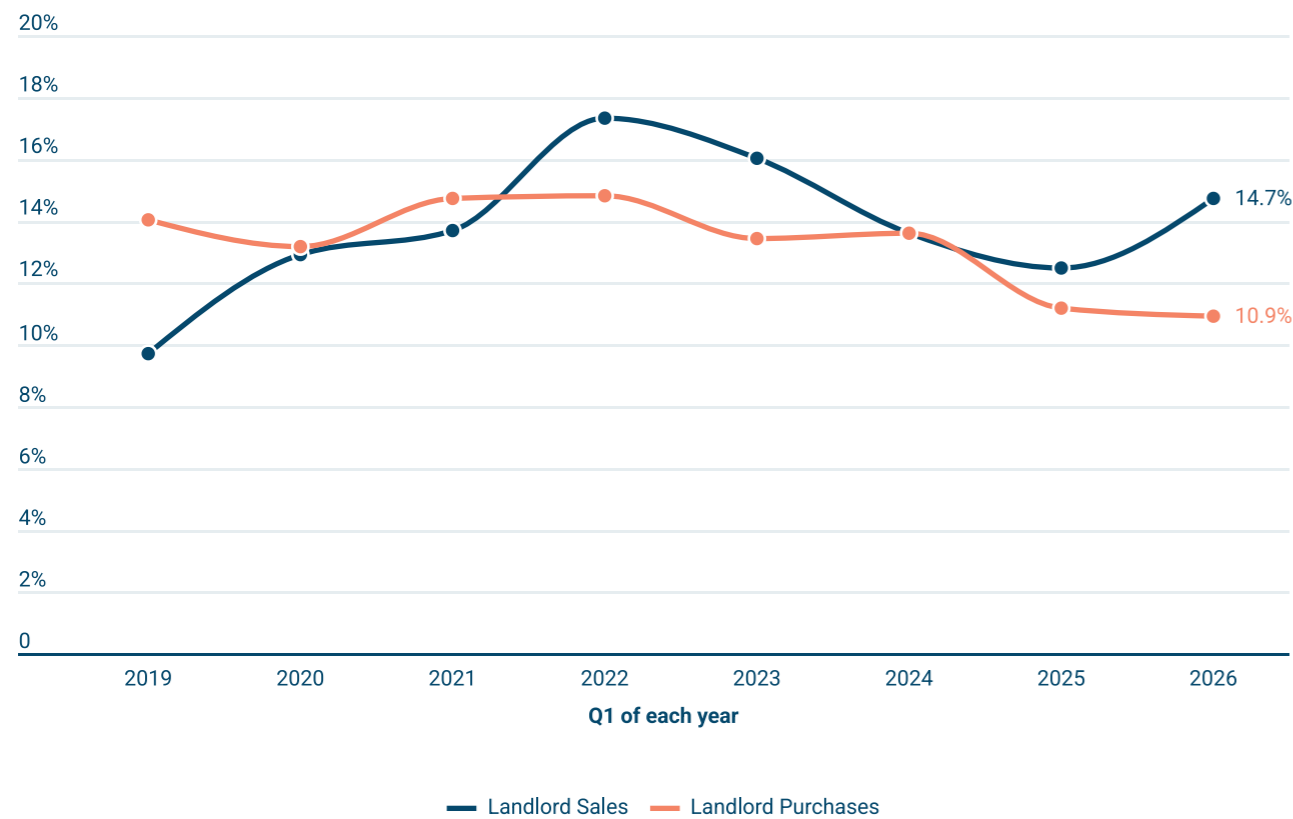


### SHARE OF INTEREST-ONLY BUY-TO-LET MORTGAGES WHERE THE LANDLORD PAYS DOWN SOME DEBT AT REMORTGAGE



Source: Connells Group

### SHARE OF HOMES BOUGHT AND SOLD BY LANDLORDS



Source: Connells Group

### Outlook: upward pressure, led by London

Looking ahead, rental growth is expected to continue picking up pace, particularly if mortgage rates remain elevated. Higher landlord costs, limited new investment and more would-be homeowners remaining in the rental sector all

point towards renewed pressure. We expect rents to rise by around 3.5% across Great Britain over the year ahead, with London likely to lead the increase as it recovers from larger falls last year and remains most exposed to

changes in borrowing costs and international demand. While a return to the extremes of 2022 and 2023 looks unlikely, the balance of risks for rents is once again tilted to the upside.

# Mortgage Market

## BORROWERS MOVE QUICKLY AMID RENEWED VOLATILITY

**Mortgage pricing through the first quarter of 2026 illustrates how quickly external uncertainty can reassert itself, even after a sustained period of improving conditions.**

Entering the year, lenders continued to respond to the Bank of England's easing cycle. Inflation was hovering near 3%, and there were tentative signs that affordability pressures were beginning to ease as rates came down.

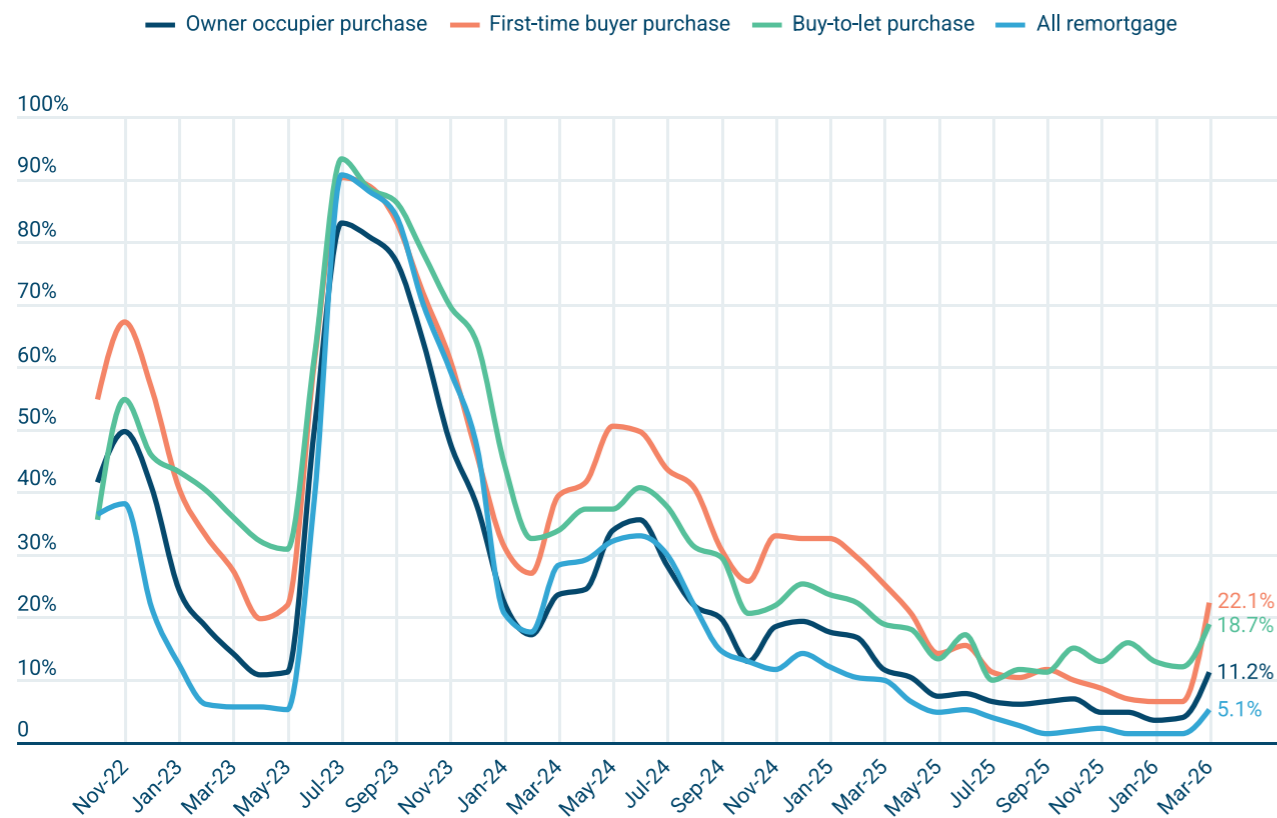
That momentum carried into early February. The average mortgage rate on application fell to 4.16%, its lowest level since September 2022, shortly before that year's mini Budget. For many borrowers, this marked an important psychological milestone, signalling that a material share of the rate shock experienced over the past two years had begun to unwind.

**“Average mortgage rates rose from 4.21% in the first week of March to 4.88% by the end of the month”**

### Geopolitical shocks trigger rapid repricing

This improvement proved short-lived. Late February saw a sharp escalation in geopolitical tensions following US and Israeli led strikes in Iran and the subsequent closure of the Strait of Hormuz. The disruption to global energy supplies quickly reignited inflation concerns, drawing uncomfortable parallels with early 2022 and the period following Russia's invasion of Ukraine.

## SHARE OF BORROWERS TAKING OUT 5% + RATE MORTGAGES



Source: Connells Group

Mortgage markets reacted swiftly. Given the forward-looking nature of pricing, as swap rates adjusted, lenders moved to withdraw and reprice products. Average mortgage rates rose from 4.21% in the first week of March to 4.88% by the end of the month. While abrupt, this move largely unwound recent gains rather than pushing pricing to new extremes. For comparison, average rates stood at 4.58% in March last year.

### Remortgaging underpins activity as borrowers move early

The uplift in mortgage activity through the first quarter of 2026 was driven primarily by remortgaging. UK Finance estimates that around 1.8 million borrowers are due to roll off fixed products in 2026, many having secured cheap five-year fixes during the busy housing market of 2021.

Consistent with this, remortgagers accounted for a 6.1 percentage point larger share of applications in Q1 than a year earlier, matched by an equivalent decline among new purchasers. This refinancing

demand has provided a reliable floor to activity levels, even as wider economic uncertainty has resurfaced.

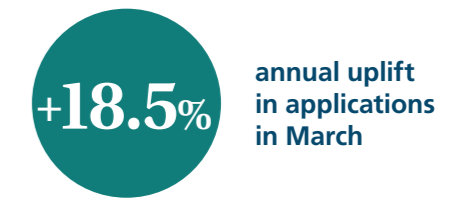
March saw an additional acceleration in volumes as mortgage pricing became more volatile. Having absorbed the lessons of recent years, borrowers appear increasingly willing to act well ahead of refinancing deadlines when rates begin to rise.

As swap rates moved higher and lenders repriced products, many households due to refinance later in the year sought to lock in deals while pricing remained comparatively favourable. This helped drive an 18.5% annual uplift in applications in March alone and suggests that activity was, in part, brought forward rather than created entirely anew.

For those refinancing in March, timing proved critical. Some 98.3% of remortgagers secured rates above 4%, up sharply from 78.2% in January and February, reflecting the speed and scale of repricing.

The financial impact for many households has been material. For borrowers rolling off five-year fixed

deals secured when rates were hovering below 2%, repayments in March were on average 27.1% higher. Those coming to the end of two year fixes, typically taken out at rates above 4.5%, also saw increases, though more limited at an average of 6.9%.



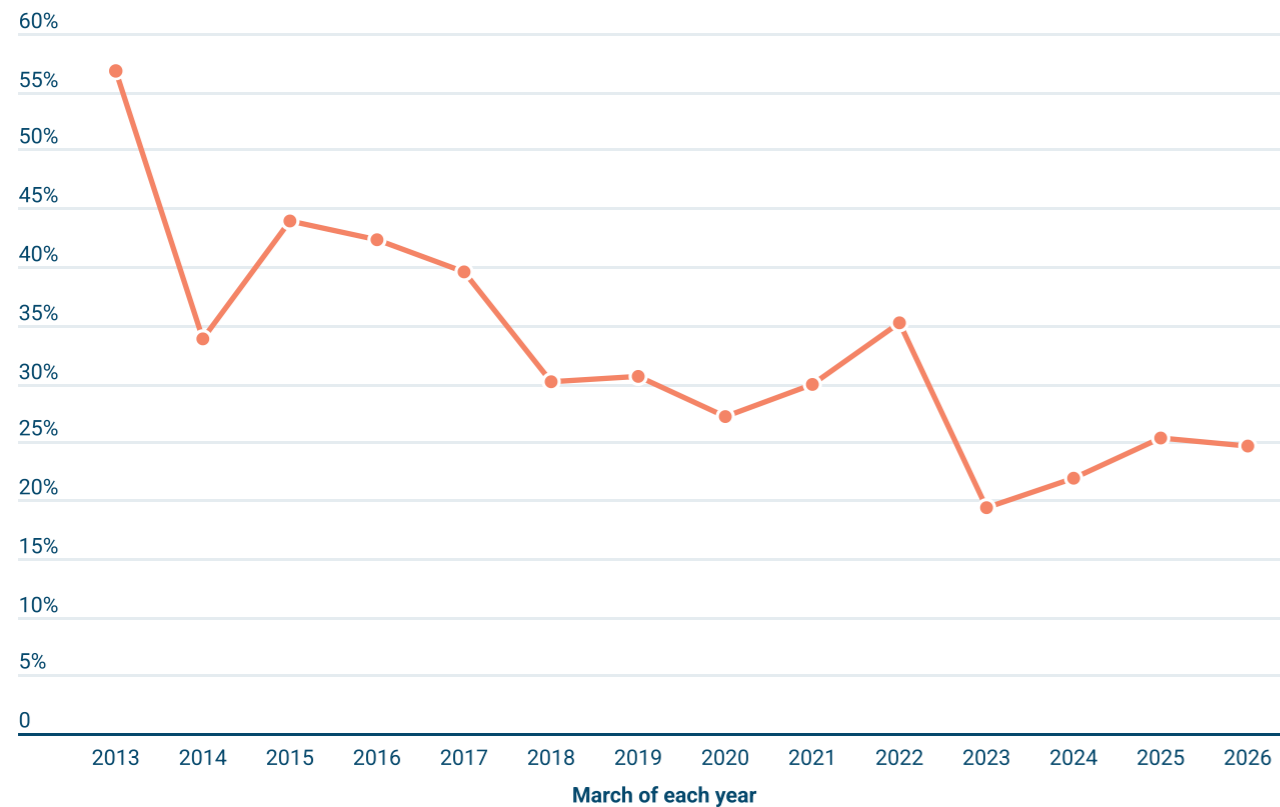
### Extra borrowing experiences a mild downturn

These refinancing pressures are affecting not only timing decisions but also how much households are willing to borrow. In the wake of recent upheaval, refinancers appear increasingly reluctant to take on extra borrowing when remortgaging. With affordability still under pressure, and the risk of further constraints ahead, many households are choosing to limit additions to their overall mortgage debt, mindful of the impact on monthly repayments.



The share of refinancers taking out extra borrowing fell sharply between March 2022 and March 2023 as the cost of debt surged. While appetite gradually recovered through 2024, reaching 25.2% last year, this March has seen a modest pullback to 24.3%. This softening may persist if renewed inflationary pressures further squeeze household budgets over the coming months.

## SHARE OF REFINANCERS TAKING OUT EXTRA BORROWING



Source: Connells Group

Further advances are often used to fund home improvements and building works, meaning shifts in this behaviour have wider implications for broader economic growth.

### Pressure builds for existing homeowners

While first-time buyers have faced relatively modest rate increases, existing homeowners looking to move have encountered a more challenging environment. This group typically relies on lower loan-to-value (LTV) borrowing, where pricing pressure has been more pronounced. Between January and

March, average sub-60% LTV rates rose from 4.03% to 4.30%.

As a result, the pricing gap between low and higher LTV products has narrowed. By the end of March, average rates stood at 4.26% for 50–70% LTV loans, compared with 4.49% for 70–90% LTVs.

When rates between LTV bands compress in this way, low-LTV lending tends to become less attractive for lenders. Given that swap costs are broadly similar across LTVs, elevated pricing environments typically push lenders to prioritise higher margin, higher LTV lending, intensifying competition in that segment.

### First-time buyers lean on longer terms

Affordability pressures continue to shape behaviour among first-time buyers, who are increasingly relying on longer mortgage terms to manage monthly repayments alongside other higher household costs. In Q1 2026, the share taking mortgages of 30 years or more rose to 52.5%, up from 50.6% in the final quarter of 2025.

However, this remains below the 53.7% recorded in Q1 last year, suggesting that recent global developments have yet to materially alter behaviour across the cohort.

Whilst rates are now broadly back to last year's positions, continued wage growth has so far curbed the need for first-time buyers to stretch their finances further.

Regionally, longer mortgage terms for first-time buyers remain most prevalent in higher priced areas outside the capital. The South East, South West and East of England all recorded shares above 56% in Q1.

London, by contrast, posted one of the lowest proportions at 44.5%, alongside Scotland, reflecting the capital's higher living costs and lower average LTVs. Notably, the only regions to record a year-on-year increase in long-term borrowing were the North East and

Wales, both of which have seen strong house price growth despite remaining relatively affordable by national standards.

### Deleveraging shifts from prices to repayments

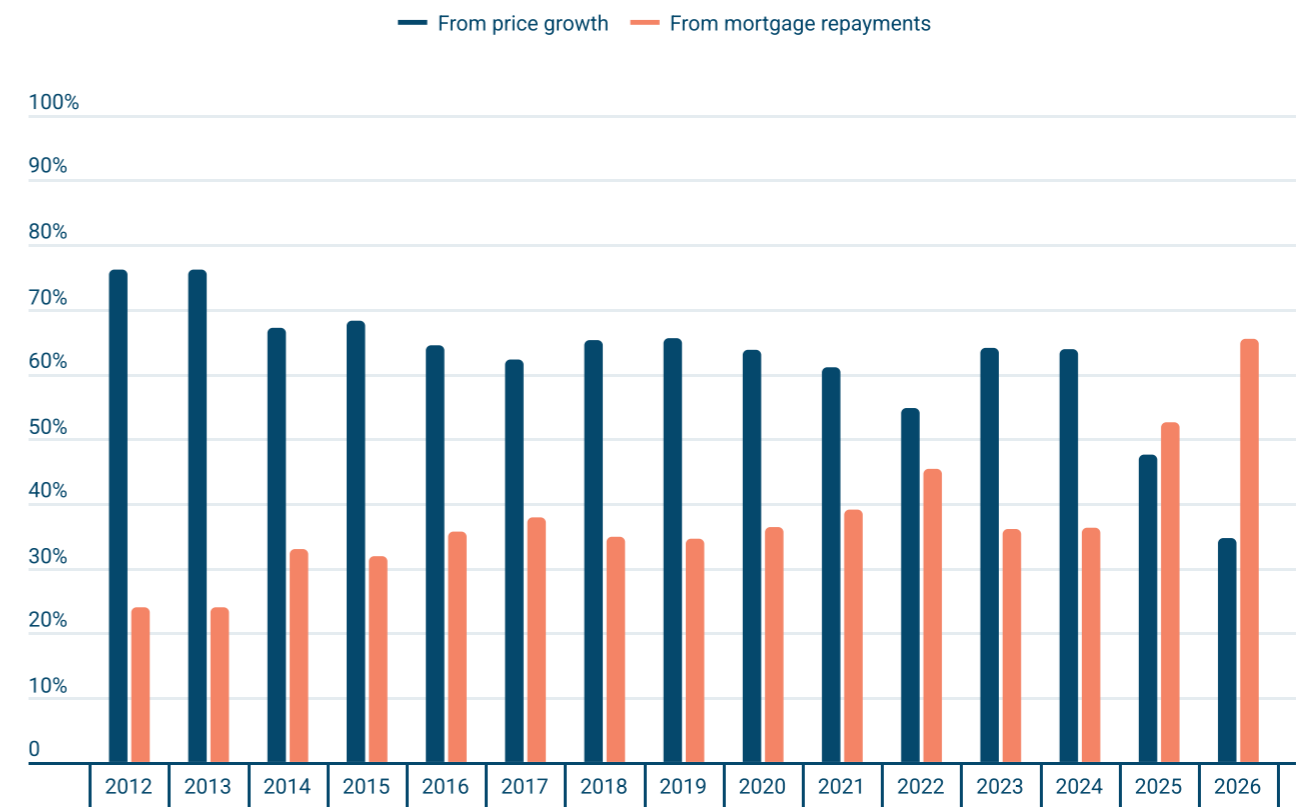
Beyond immediate borrowing behaviour, there has been a structural shift in how households are deleveraging. With house price growth subdued, equity is now being accumulated increasingly through mortgage repayments rather than capital appreciation.

Last year marked the first time since 2012 that a majority of borrowers generated most of their equity

through repayments rather than house price growth. By 2026, against a backdrop of renewed geopolitical risk, that share had risen further to 65.4%, up sharply from 36.2% in 2024.

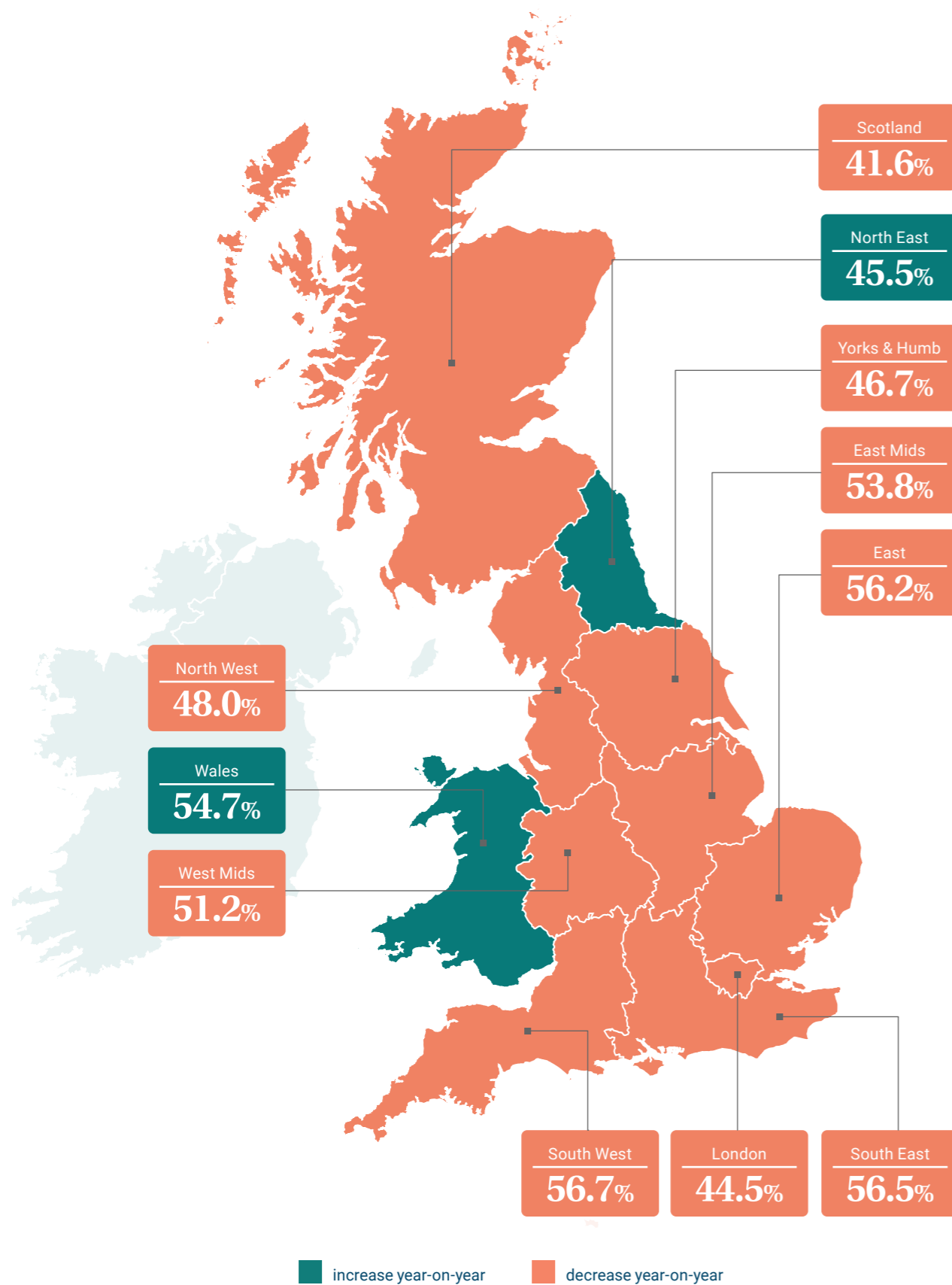
The average borrower who purchased in 2019 and remortgaged two years later, during the low-rate, high-house price growth conditions of 2021, saw their LTV fall by 18.4%. By contrast, a borrower remortgaging this year, having bought two years earlier, would see their LTV decline by just 9.5%, reflecting the far smaller contribution from house price growth.

## WHERE HOMEOWNERS GET THEIR EQUITY FROM BY YEAR OF PURCHASE



Source: Connells Group

SHARE OF FIRST-TIME BUYERS TAKING OUT  
30+ YEAR MORTGAGES (Q1 2026)



Source: Connells Group



**Outlook: uncertainty likely to sustain caution**

At the time of writing, the situation in the Middle East remains fluid, and the longer-term implications for the UK economy are still unclear. Financial markets are highly confidence driven, and any prolonged disruption to shipping through the Strait of Hormuz would be expected to keep energy prices elevated.

In response, it looks increasingly likely that the Bank of England will choose to pause its planned rate cuts and will face renewed pressure to tighten policy instead. With the experience of early 2022 still fresh in the minds of policymakers and lenders alike, mortgage pricing is likely to retain a degree of embedded caution.

While demand has so far proved resilient, sustained uncertainty would be expected to temper activity among all but the most motivated households, with refinancing and first-time buyer demand continuing to dominate near-term volumes.

# Energy Upgrades

ENERGY STANDARDS RISE,  
BUT LIMITS EMERGE

“ Around 45% of homes recorded an improvement in their EPC rating last year. ”

**Energy efficiency has become an increasingly important, if often indirect, consideration in mortgage valuations.**

Higher energy costs, evolving regulation and growing scrutiny of housing quality mean EPCs, while still a blunt tool, now carry more weight than they did even a few years ago. As a result, a key question for lenders is no longer just how efficient the housing stock is, but

whether it is improving - and where progress is beginning to slow.

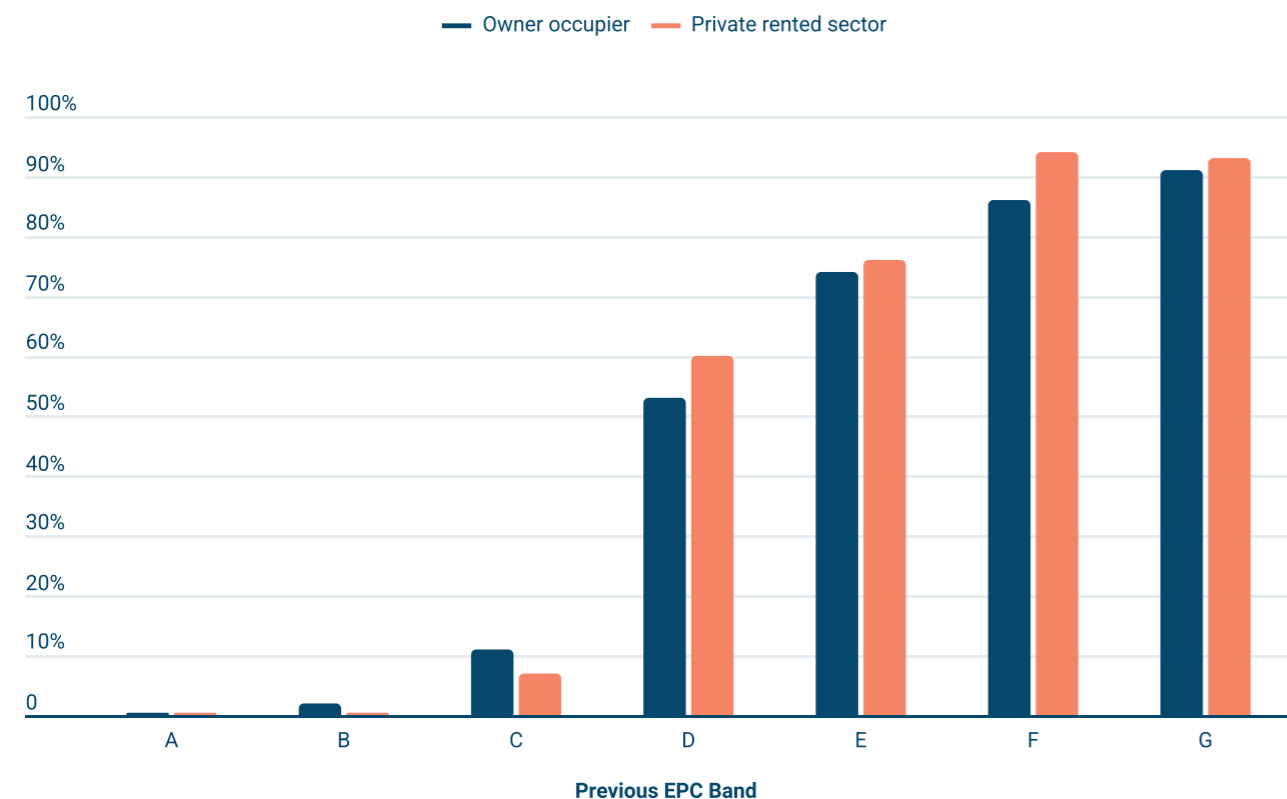
**Improvement is happening, but unevenly**

At an aggregate level, progress is clearly under way. Around 45% of homes recorded an improvement in their EPC rating last year compared with their previous assessment, suggesting that a meaningful share of households continue to invest in energy efficiency despite

higher interest rates and stretched affordability.

However, this headline figure masks significant variation. Improvements are most common at the least efficient end of the housing stock, while progress slows sharply as properties approach higher standards, where costs rise and financial returns diminish. The overall direction of travel is positive, but uneven.

## SHARE OF HOMES THAT SAW THEIR EPC BAND IMPROVE



Source: MHCLG & Connells Group



### Tenure matters - and regulation is doing much of the work

The drivers of improvement differ markedly by tenure. On average, owner-occupied homes were slightly more likely to see an EPC upgrade than those in the private rented sector. But among the least energy efficient homes, the pattern reverses. Rental homes starting in EPC bands E, F and G were more likely to move up a band than

owner-occupied equivalents.

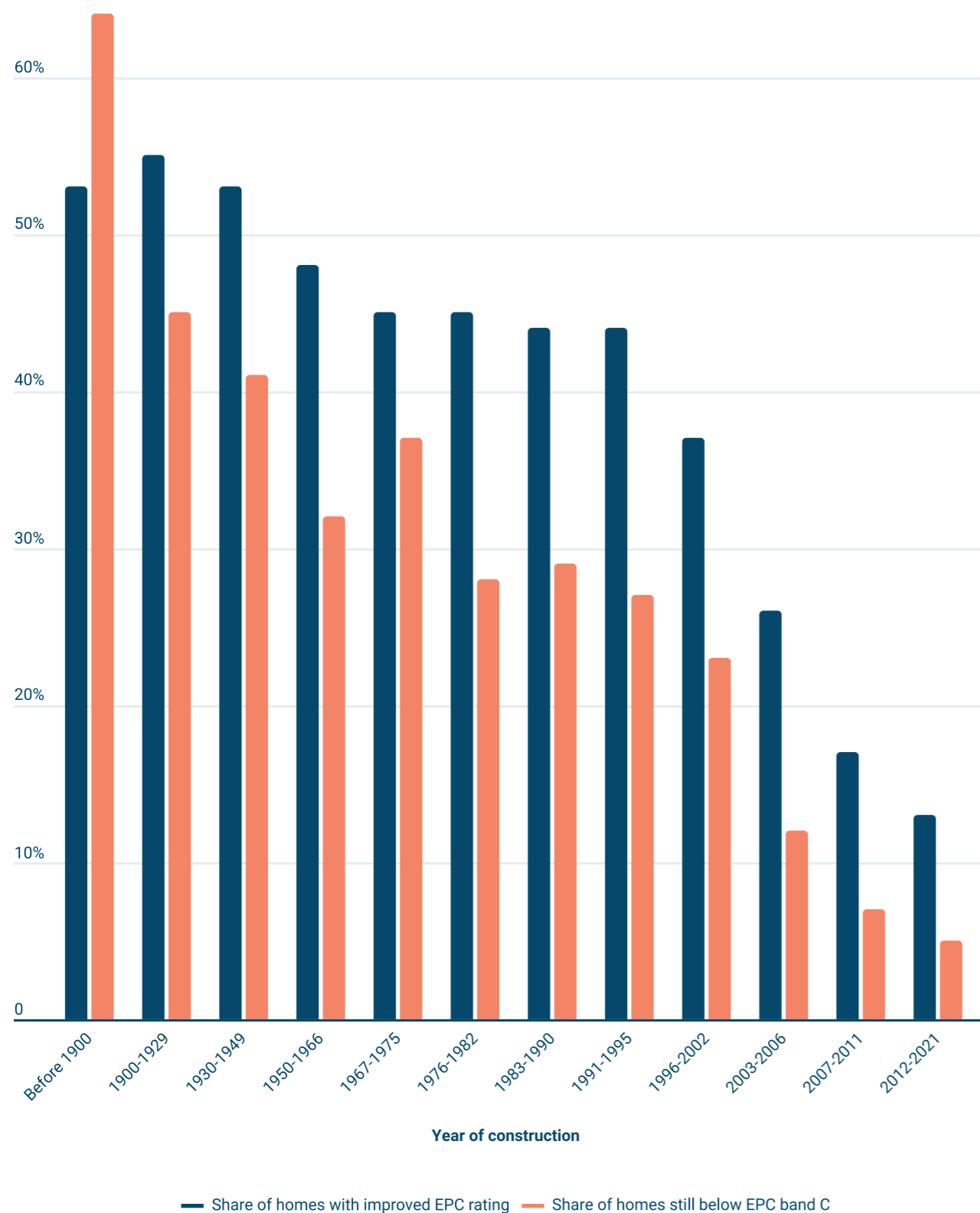
This reflects the impact of regulation. Minimum Energy Efficiency Standards have created a clear incentive - and, in practice, a deadline even if it's a movable one - for landlords to act, particularly where the risk of non-compliance is highest.

In contrast, owner-occupiers face no equivalent regulatory 'stick'. Upgrades in this part of the market are therefore more discretionary,

more reliant on household finances, and more likely to be postponed when budgets are under pressure.

For lenders, this distinction is important. Regulation has proven effective in driving upgrades among the least efficient rental stock. Where that pressure is absent, progress relies more heavily on incentives, energy costs and individual priorities - all of which have become more constrained in a higher-rate environment.

## ENERGY EFFICIENCY RATINGS BY PROPERTY AGE



Source: MHCLG & Connells Group

### Property type and age define the limits of progress

Once regulatory pressure has prompted upgrades at the lowest EPC bands, the scope for further improvement increasingly depends on the property itself.

Houses are more likely to improve than flats, reflecting greater physical scope for measures such as insulation and heating upgrades.

Around half of houses saw their EPC rating improve, compared with 35% of flats, where structural constraints often limit viable interventions.

Property age is even more decisive. Older homes are far more likely to have upgraded, with more than half of pre-1930 properties improving their EPC rating. By contrast, improvement rates fall sharply for homes built since 2000, many of which already meet baseline

efficiency standards and face higher costs for marginal gains.

This highlights an important reality: not all properties will reach the same level of energy efficiency. As homes move closer to EPC band C and beyond, improvements become increasingly incremental and capital-intensive. Even where willingness exists, physical constraints impose a natural limit on what can be achieved.

Target Band	Primary Focus	Typical Measures
<b>Band D</b>	Insulation Basics	270mm Loft insulation, Cavity wall fill, LED lighting.
<b>Band C</b>	System Efficiency	A-rated boiler, Double glazing, Floor insulation.
<b>Band B</b>	Renewables	Solar PV, Heat Pump, Solid wall insulation.
<b>Band A</b>	Total Integration	Solar batteries, MVHR, Triple glazing, Airtightness.

### What this means for lenders and the future

At present, EPCs remain a relatively non-intrusive, rough-and-ready way of assessing a home's energy performance. In practice, they function more as a proxy for running costs than a direct measure of carbon efficiency, with lower expected bills translating into higher ratings.

Viewed through this lens, the economics of further improvement are telling. For many homeowners, the investment required to move comfortably beyond EPC band C is unlikely to be offset by savings on bills in the short- to medium-term. Our analysis suggests that,

at present, an EPC C rating is a badge indicating that the basics are in place and utility bills are broadly under control, rather than a signal to invest further.

That balance is set to change. Planned reforms to the EPC framework from October are expected to introduce a more granular assessment, shifting away from a single headline score towards separate measures of fabric, energy costs, heating systems and smart readiness.

Under this new approach, some homes that currently achieve a low C rating through relatively conventional measures - such as a modern gas boiler, double glazing

and insulation - may see their overall score fall, while low carbon technologies could boost ratings regardless of their immediate impact on bills.

For lenders and valuers, this will weaken EPCs as a simple indicator of today's running costs. Instead, the framework will increasingly reflect future energy characteristics aligned with policy objectives. Interpreting risk will therefore require looking beyond headline ratings and engaging more closely with the underlying components, particularly as energy efficiency becomes more differentiated across the housing stock.

# Policy Focus

## A DECADE OF THE SDLT SURCHARGE

**It is now ten years since the introduction of the second-home Stamp Duty Land Tax (SDLT) surcharge.**

When it was launched, the policy was framed as a clear social intervention: a way to temper investor demand and give first-time buyers a fairer chance in competitive markets. At the time, there was a compelling political narrative that landlords were crowding out aspiring owner-occupiers.

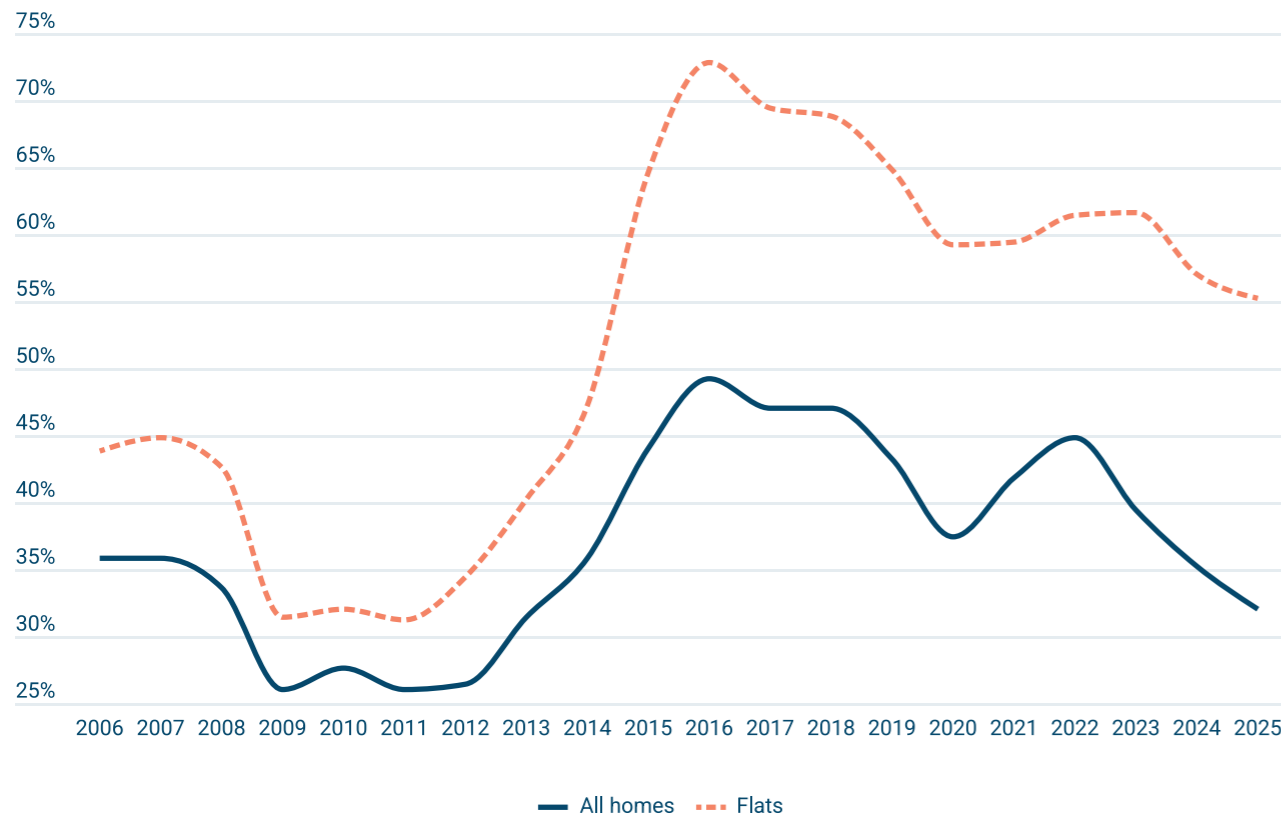
A decade on, the long-term impact of the surcharge looks rather different. What began as an attempt to rebalance access to homeownership has increasingly become a dampener on development and, in turn, on housing supply. By materially raising the cost of entry for investors, particularly in higher-priced, high-density markets, the surcharge has steadily eroded a key source of early demand that many schemes rely on to get built.

### The silent architect of the housing crisis

Until late 2022, the impact of the second-home stamp duty surcharge was masked by a highly supportive economic environment for housebuilders. Historically low interest rates, combined with the Help to Buy Equity Loan scheme, helped sustain demand and manage development risk. With both of these supports now withdrawn, at least for now, housebuilders

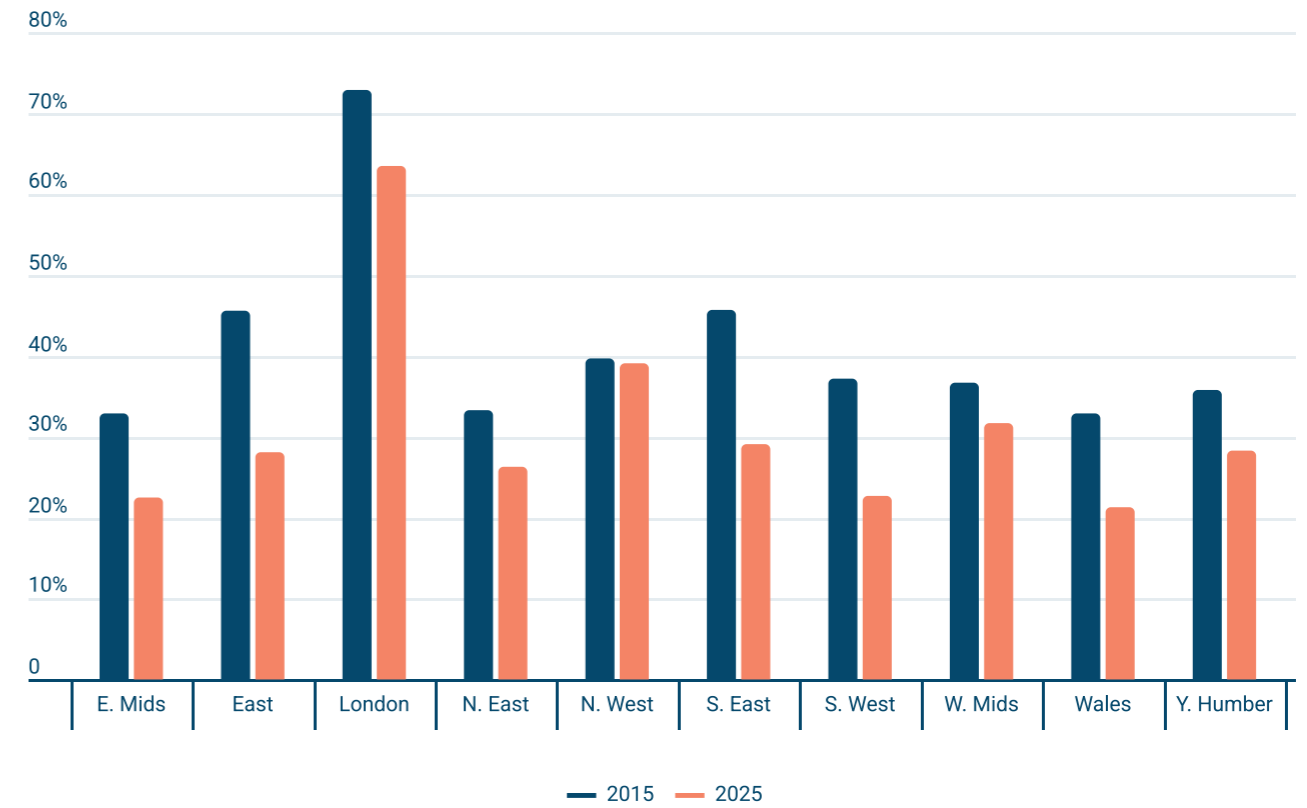
**“As investor participation has declined, a critical source of pre-completion demand has been removed”**

SHARE OF NEW HOME SALES AGREED OFF-PLAN (ENGLAND & WALES)



Source: Connells Group

SHARE OF NEW HOME SALES AGREED OFF-PLAN (ENGLAND & WALES)



Source: Connells Group

are operating in a far less forgiving environment.

The impact is most visible in London and the South East, where the surcharge is most expensive in cash terms. Over the past decade, the share of homes bought by investors in these regions has more than halved. As investor participation has declined, a crucial source of pre-completion demand has been removed, increasing both financing risk and delivery uncertainty. Without early investors, building new homes becomes significantly more expensive - and materially riskier.

### Investors as a housebuilding engine

When the stamp duty surcharge was introduced, debate focused largely on investors 'taking' homes from owner-occupiers and first-time buyers. While this undoubtedly occurred in some markets, it overlooked the role investors played on the supply side.

Investors remain among the few buyer groups who are prepared to purchase properties off-plan, often committing a year or more before completion. This early commitment has historically been critical in supporting large scale schemes.

As investor demand has been squeezed, the share of homes sold off-plan has fallen sharply - from a peak of around 50% in 2016 to around 30% today. This decline reflects not a weaker housing need, but a narrowing pool of buyers willing and able to commit early in the construction cycle.

By contrast, most first-time buyers want to move into their home immediately, often within the constraints of complex chains. Few other buyer types are willing or able to wait a year or two for a home to be built. As a result, developers have struggled to replace the role off-plan investors once played.

### Why off-plan sales matter

The importance of off-plan demand becomes clearer when viewed through a financing lens. For developers, off-plan sales are not simply 'early revenue'; they are a key mechanism for controlling finance costs, particularly in a higher-interest-rate environment. When early sales slow, borrowing costs rise - and in today's rate environment, margin erosion can happen quickly.

Our analysis shows that failing to secure sufficient off-plan demand can wipe out already-thin margins, even on projects with relatively conservative lending levels. If the government is serious about

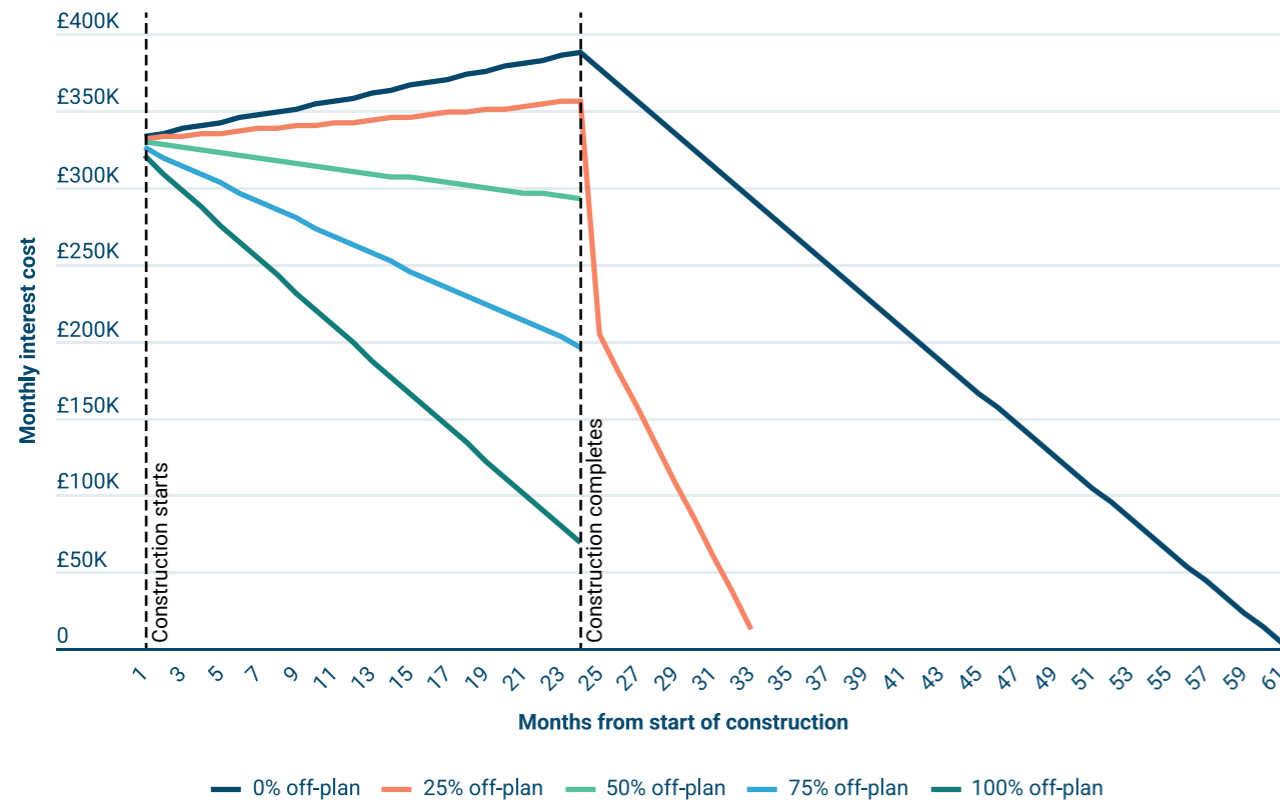
hitting its target of 1.5 million homes, it must recognise that housebuilding depends on the forms of capital from a broad mix of occupiers, investors and institutions. Narrowing that pool inevitably narrows supply.

### The cost of waiting

To understand why off-plan sales matter, we've tracked typical finance costs for a development of 200 flats priced at £500,000 each, with a total gross development value (GDV) of £100m. While developers might target profits of 10% to 20% on such a project, finance costs can quickly accumulate.

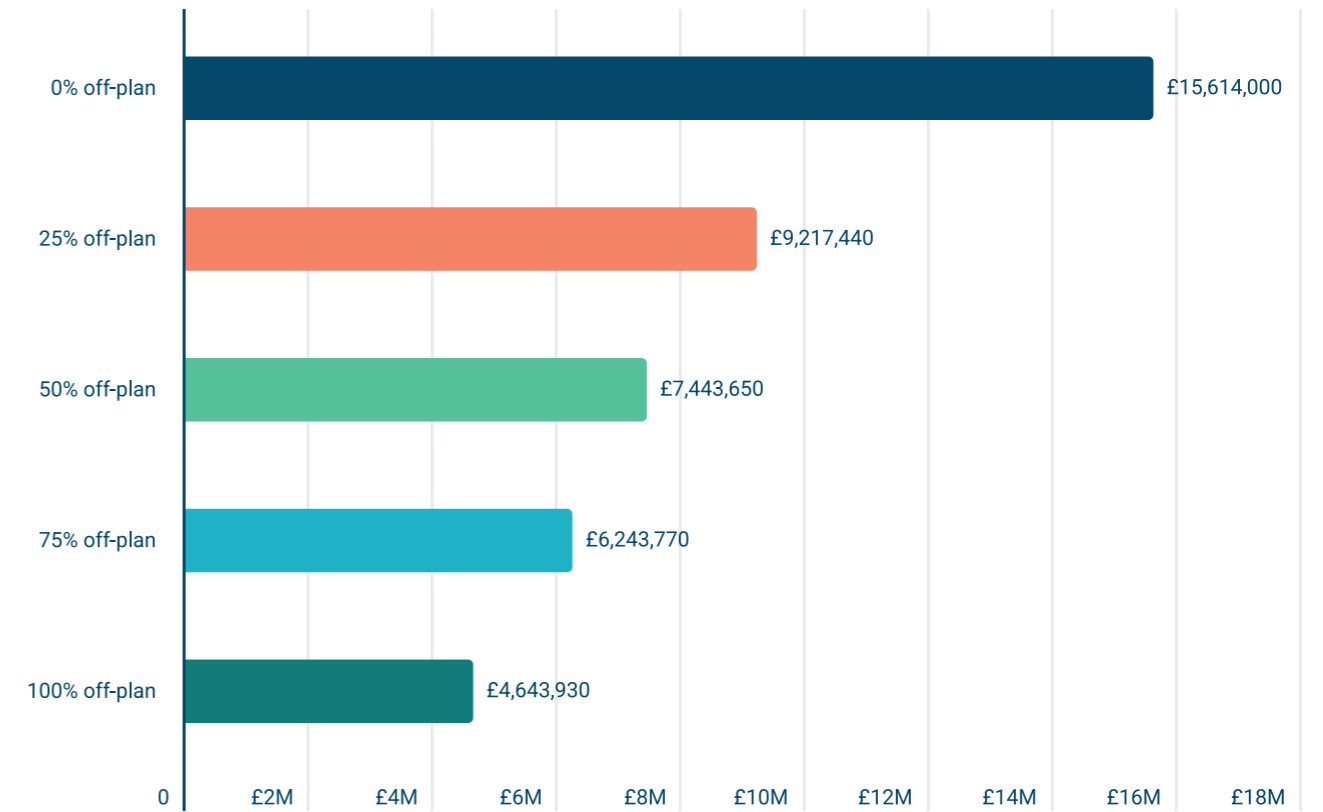
Without enough off-plan sales to support early-stage cash flow, interest on a typical £50m development loan (50% LTV) continues to compound long after construction is complete. In this context, the SDLT surcharge begins to function less as a tax on property ownership and more as a tax on development viability. While the model relies on some broad assumptions which can be flexed, the conclusion is clear: extended post-completion sales periods can erode profits entirely, delaying - or preventing - delivery.

### MONTHLY £50M DEVELOPMENT LOAN INTEREST COSTS EXAMPLE



Source: Connells Group

### TOTAL DEVELOPMENT LOAN INTEREST



Source: Connells Group

Metric	Detail
Development Loan	£50m at 8% interest per annum
Build Programme	24 months
Post-completion sales rate	4 units per month starting from completion
Deposit Structure	20% on exchange; 80% on completion

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### **About our data:**

Our research draws on comprehensive, proprietary datasets that are unrivalled across the UK property sector. With more than 1,200 branches covering almost 90% of England and Wales postcodes and a 10% share of all property sales each year, our analysts have access to real-time, highly granular data beyond most competitors' reach. As one of the UK's largest mortgage businesses, we also analyse insights derived from around £33 billion of lending facilitated annually. Together, this gives us a uniquely detailed view of the residential market, spanning sales, lettings, mortgages, professional services and wider policy trends.

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