United Kingdom

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IN A NUTSHELL

- → Mortgage lending recovered strongly in 2025: outstanding residential mortgage lending reached around EUR 1.9 trillion, while gross residential lending increased by 15.6% to EUR 337.3 billion, supported by house purchases and increased remortgaging activity.
- → Lending conditions eased: mortgage rates declined as Bank Rate was cut, while lenders increased their risk appetite, with lending at LTVs above 90% reaching 8.35% in Q4 2025, the highest level since Q2 2008.
- → Funding and green finance remained important: lenders increased their use of wholesale funding, with EUR 19.4 billion raised through covered bonds, while the Warm Homes Plan committed substantial public funding to energy efficiency and home upgrades.

MACRO-ECONOMIC OVERVIEW

The UK economy grew modestly in 2025, with real GDP rising by around 1.0% over the year, reflecting subdued domestic demand and weak productivity growth. Labour market conditions continued to loosen with the unemployment rate increasing to just above 5% by late 2025. The number of job vacancies declined and pay growth eased. At the same time, inflation remained above target for much of the year. After falling close to the 2.0% target in 2024, price pressures re-emerged during 2025, with CPI inflation rising to around 3.8% in the autumn before easing later in the year, driven by price rises in energy, food and services.

Monetary policy remained in restrictive territory but eased gradually with the Bank Rate being cut from 4.75% in November 2024 to 3.75% by December 2025. This reflected progress in reducing underlying inflation, but the Bank remained cautious given persistent domestic price pressures.

Fiscal policy was aimed at supporting growth with continued emphasis on public investment and housing supply reforms. The interaction of slower growth, easing wage pressure and above target inflation created a mixed environment for housing. Lower mortgage rates began to improve housing affordability, but weak activity, cautious households and stretched affordability continued to restrain housing demand.

LOOKING AHEAD

The housing and mortgage markets have been relatively stable in 2026 despite the ongoing conflict in the Middle East. However, consumers remain cautious. Households were anticipating mortgage rates to fall this year, but with the conflict enduring, households are now adapting their expectations to a higher interest rate environment in the short-term at least. The Bank of England has highlighted that conflict driven energy shocks could keep inflation above target for longer and keep monetary policy in restrictive territory. Remortgaging activity is a major driver of mortgage lending activity as many households are now refinancing covid era loans that were initially secured at very low rates. House prices are likely to remain relatively flat but regional differences will remain, with affordability pressures weighing more heavily on London and southern England than on other regions with relatively lower house prices.

HOUSING MARKETS

The latest data for 2024 shows 64.8% of UK households own the property they lived in, broadly unchanged over the last two years. Housing investment also showed only a gradual improvement: gross fixed investment in dwellings has picked up in recent years, but activity remained subdued as high build costs, financing constraints and planning delays continued to weigh on activity in 2025.

Property transactions picked up in 2025; however, there was some volatility over the year due to transactions being brought forward ahead of changes to stamp duty thresholds from April. A sharp drop in transactions followed immediately afterwards but by the second half of the year activity had normalised.

House prices increased modestly in 2025. According to the UK House Price Index, average UK house prices grew by around 2.4% in 2025. There were some significant regional differences with price growth generally stronger in more affordable regions including Scotland and the North West. In London and the South East much weaker growth was seen.

Housing starts recovered somewhat in 2025, rising to around 125,000 in England, but completions fell to around 142,000, the lowest since 2016. When housing conversions are included, and net of housing demolitions, there were 208,600 'net additional dwellings' in 2024/25, a 6% decrease on the previous year.

Elevated construction costs, viability constraints, planning delays and tighter financing conditions have meant that supply has remained constrained and has supported house price growth despite strained affordability measures. Over the year Bank Rate cuts and somewhat lower mortgage rates improved borrowing capacity, whilst relatively strong wage growth supported demand. Taken together, these factors produced a market of modest nominal price growth, recovering transactions, and continued regional rebalancing in favour of more affordable parts of the UK.

MORTGAGE MARKETS

In 2025, the UK mortgage market continued to recover, supported by lower interest rates, rising real wages and improving borrower confidence. The stock of outstanding residential mortgage lending reached around EUR 1.9 trillion by the end of 2025, around 3% higher than a year earlier.

Gross residential lending also strengthened in 2025, totalling EUR 337.3 billion, up 15.6% on 2024. Growth was driven by house purchases but also remortgaging, as many borrowers refinanced covid era loans. By contrast, buy to let activity remained subdued, reflecting higher financing costs, tighter tax treatment and weaker demand.

Mortgage interest rates fell gradually over the year as Bank Rate was reduced and the average effective rate on new mortgages was around 4.50% in 2025, down from 4.88% in 2024.

Lender risk appetite also increased in 2025. The share of loans advanced at loan-to-value ratios above 90% rose to an average of 7.35% in 2025, peaking in Q4 2025 at 8.35% the highest since Q2 2008. The proportion of loans advanced to first-time buyers also remained elevated at around 40%.

Levels of mortgage arrears remained low and fell marginally over the year. The number of loans in arrears as a percentage of total loans fell from 1.46% in Q4 2024 to 1.37% in Q4 2025. This reflects positive real wage growth over the year combined with continued lender forbearance to help households manage payment pressures. Possessions increased, but from a very low base, and mainly reflected the clearing of older arrears cases through the court system.

Commercial real estate had recovered somewhat in the first half of 2025, with new lending for real estate up 33% on the same period in 2024, whilst banks made progress in reducing the proportion of defaulted loans.

Several policy related factors affected UK mortgage market activity in 2025. The first was the reversal of the temporary stamp duty thresholds in England and Northern Ireland from 1 April 2025. This encouraged some buyers to bring transactions forward into the first quarter of the year and contributed to a subsequent dip in activity immediately afterwards, distorting both housing transactions and associated mortgage lending flows.

The Mortgage Guarantee Scheme closed to new applications at the end of June 2025, followed by the launch of a new permanent Mortgage Guarantee Scheme in July although this would not have materially affected market activity.

In July 2025 the de minimis threshold that limited lenders to advancing no more than 15% of residential mortgages at LTIs at or above 4.5 times income was increased to EUR 171.5 million from EUR 114.3 million, allowing greater competition in this market segment from smaller lenders. At the same time the Financial Policy Committee stated it would review the 15% LTI flow limit, and lenders were able to apply for a modification by consent to go above the limit until June 2026. However, the regulators would monitor the market so at an industry level the 15% limit would not be breached. This modification helped service increased demand from first-time buyers whilst maintaining the original financial stability objective.

MORTGAGE FUNDING

UK lenders made greater use of wholesale markets in 2025. Retail deposit funding was broadly stable but more expensive, reflecting increased competition for household savings and higher savings interest rates offered.

An aggregate of EUR 19.4 bn was raised in the covered bond market in 2025, which is up around 10% on the previous year and saw the value of covered bonds outstanding at the end of 2025 rise to EUR 106.3 bn. Maturities were lower than the previous year at only EUR 6.9 bn. The repayment of TFSME drawings and continued growth in the UK mortgage market saw a pickup in activity in the RMBS market.

GREEN FUNDING

The Green Finance Institute launched a Green Home Finance Roadmap for the mortgage industry in 2025, supported by lenders and trade bodies, to help embed sustainability into mortgage advice, product design and retrofit customer journeys. The recently launched Government's Warm Homes Plan will deliver the largest public investment in home upgrades in British history, aimed at reducing energy bills, tackling fuel poverty and addressing the climate crisis. The plan will deliver EUR 17.1 billion of public investment to upgrade 5 million homes and lift up to a million homes out of fuel poverty. The Government's offer to consumers includes EUR 5.7 billion for low-income schemes; EUR 2.3 billion for consumer loans, EUR 3.1 billion for the Boiler Upgrade Scheme, EUR 1.3 billion for Heat Networks, EUR 3.1 billion in innovative finance through the Warm Homes Fund to invest in home upgrades and EUR 1.7 billion to fund other Warm Homes Plan programmes.

	UNITED KINGDOM 2024	UNITED KINGDOM 2025	EU 27 2025
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	1.0	1.0	1.5
Unemployment Rate (LSF), annual average (%) (1)	4.36	4.75	6.0
HICP inflation (%) (1)	2.55	3.88	2.0
HOUSING MARKET			
Owner occupation rate (%) (1)	64.8	65.0	68.5
Gross Fixed Investment in Housing (annual change) (1)	n/a	n/a	2.8
Building Permits (2015=100) (2)	n/a	n/a	86.9
House Price Index - country (2015=100) (2)	143.26	146.77	161.92
House Price Index - capital (2015=100) (2)	122.19	123.19	n/a
Nominal house price growth (%) (2)	0.7	2.42	5.5
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	1,983,868	2,011,904	5,617,435.11
Outstanding Residential Loans per capita over Total Population (EUR) (2)	28,658	28,954	12,472.10
Outstanding Residential Loans to disposable income ratio (%) (2)	90.1	83.38	81.39
Gross residential lending, annual growth (%) (2)	n/a	15.6	2.8
Typical mortgage rate, annual average (%) (2)	4.88	4.53	3.31

(1) Eurostat Data
(2) European Mortgage Federation – Hypostat 2026, Statistical Tables

UNITED KINGDOM FACT TABLE

Which entities can issue mortgage loans in your country?	Monetary and Financial Institutions (MFIs), which includes banks and building societies. Other specialist lenders (non-bank, non-building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations, insurance companies and pension funds). Other (anything not covered elsewhere).
What is the market share of new mortgage issuances between these entities?	MFIs account for 92.7% of new mortgage issuances. Other specialist lenders account for 6.5% of new mortgage issuances. Other entities account for 0.9% of new mortgage issuances.
Which entities hold what proportion of outstanding mortgage loans in your country?	MFIs hold 89.6% of outstanding mortgage loans. Other specialist lenders hold 7.0% of outstanding mortgage loans. Other entities hold 3.4% of outstanding mortgage loans.
What is the typical LTV ratio on residential mortgage loans in your country?	The typical LTV ratio was 71.4% for loan advances in 2024.
How is the distinction made between loans for residential and non-residential purposes in your country?	The distinction is based on the property being purchased and the purpose it will be used for. A residential loan is used to purchase a property that a person will live in. A commercial loan is one that is used to purchase commercial land or buildings.
What is/are the most common mortgage product(s) in your country?	The most common mortgage products are initial fixed-rate products.
What is the typical/ average maturity for a mortgage in your country?	The average maturity was 28.7 years for loan advances in 2024.
What is/are the most common ways to fund mortgage lending in your country?	The most common sources of funding for mortgage lending are retail deposits and wholesale funding.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	1. Stamp Duty Land Tax – ranges from 0% to 12%, depending on property value 2. Valuation fee – ranges from GBP 150 to GBP 1,500, depending on property value 3. Surveyor's fee – ranges from GBP 250 to GBP 600 4. Legal fees – ranges from GBP 500 to GBP 1,500 5. Electronic transfer fee – around GBP 40 to GBP 50
What is the level (if any) of government subsidies for house purchases in your country?	There are no subsidies which apply to house purchase on the whole, there are however some subsidies for specific parts of the market, such as those who live in social housing.