SANDHÜTEL | REAL ESTATE WEEKLY
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Policy Wants More Homes. The Builders Cannot Afford To Build Them.

THIS WEEK AT A GLANCE

- Planning is clearing the path faster than builders can afford to follow it.
- Funding costs are hardening at the exact moment development needs them to ease.
- Viability, not permission, will decide who actually builds through this cycle.

Government has just made it easier to build. The market has just made it harder to afford to. Those 2 facts landed in the same fortnight, and taken together they describe the sharpest tension in UK property right now, a policy environment turning decisively pro development at the exact moment the economics of actually delivering a scheme are deteriorating.

None of this shows up cleanly in the headline house price data. Nationwide recorded a small 0.2% rise in August, the kind of number that reads as recovery if that is the only line you look at. Approvals and net mortgage borrowing fell in July, the effective rate on newly drawn mortgages rose to 4.45%, and the first week of September brought a sharp move in gilt yields that pushed 10 year borrowing costs to their highest level since 2008. A small price bounce sitting on top of a weakening finance picture is not a contradiction. It is a market where completed sales lag the conditions actually facing buyers and developers today.

That gap between policy intent and financeable reality is this week's story, and it runs through rates, through demand, through London, and most explicitly through development and planning. The National Planning Policy Framework revised on 17 August is unambiguously pro supply. August's construction data, alongside a listed housebuilder swinging from expected profit to expected loss, is unambiguously not. **The binding constraint has shifted from permission to viability, and that shift changes who wins this cycle.**

RATES AND LENDING

The Bank of England held Bank Rate at 3.75% on 30 July, a 6 to 3 vote with 3 members still pushing for an immediate rise to 4.00%. The next decision falls on 17 September, and in the weeks either side of that meeting the committee has effectively lost control of the number that actually matters to borrowers and developers. Bank Rate has not moved. Every rate that prices new lending has.

The Bank of England's July Money and Credit release showed net mortgage borrowing falling to £4.3bn from £7.7bn, house purchase approvals slipping to 56,100 from 58,200 and sitting below the previous 6 month average of around

60,800, and the effective rate on newly drawn mortgages rising to 4.45% from 4.35%. Moneyfacts put average 2 year fixed pricing at 5.60% and 5 year fixed pricing at 5.64% on 4 September. Then the wholesale market moved hard. The 10 year gilt yield reached 5.26% on 1 September, its highest level since 2008, and the 30 year gilt touched 5.9% the following day, its highest since 1998. Family Building Society withdrew its entire fixed rate range from noon on 4 September, citing swap rate increases explicitly. That is not a lender repricing at the margin. That is a lender stepping back from the market altogether while it works out where pricing needs to land.

For a homebuyer this shows up as a higher monthly payment. For a developer it shows up somewhere more consequential: in the discount rate used to underwrite land, in the cost of a revolving development facility, and in the residual value calculation that decides whether a scheme still stacks. **Every basis point added to the cost of capital is a basis point taken from what a scheme can afford to pay for the land beneath it.**

DEMAND AND TRANSACTION ACTIVITY

Buyer activity is soft, not absent, and the distinction matters more than the headline suggests. Nationwide's 0.2% August rise, with the annual rate at 1.6%, sits against a market where the leading indicators of actual commitment are still weakening. That combination, a positive valuation based index next to falling approvals and falling completions, is the clearest evidence yet that this is a stalled normalisation rather than a genuine turn.

Rightmove's new seller asking price fell 2.0% in August to £364,999, its largest August monthly fall since 2018, even with listing stock running unusually high for the time of year. HMRC recorded 96,710 seasonally adjusted residential transactions in July, down 2% on the month and 1% on the year. Zoopla's July read showed house price inflation of 0.9% year on year, flats down 1.6% over the same period, sales agreed 6% below a year earlier, and buyer searches 7% higher. RICS members remain more cautious than the transaction data alone would suggest, with July's new buyer enquiries at a net balance of minus 28 and agreed sales at minus 30, though near term sales expectations improved to minus 14 and 12 month expectations turned positive at plus 3.

Savills puts July mortgage approvals 16% below the 2017 to 2019 average and August sales agreed net of fall throughs 6% below that same benchmark, while completed July transactions actually sat 2% above it, a reminder that completions lag the pipeline by 2 to 4 months and describe a market that has already moved on. This is precisely the demand backdrop that lands hardest on housebuilders trying to sell out live schemes. Crest Nicholson named weaker open market demand and competitive pricing directly as reasons for its guidance cut this week, which means the softness described here is not an abstract market signal. It is showing up on a developer's income statement in real time.

LONDON

London remains the country's clearest underperformer on price, and the fresh prime data this week add a genuinely new layer to that story rather than simply confirming it. Liquidity is improving. Pricing power is not. Those 2 things are moving in opposite directions inside the same market, and treating London as a single number hides the more interesting split underneath.

Rightmove's London asking price averaged £646,451 in August, down 4.4% on the month and 3.1% on the year, with an average of 73 days now needed to secure a buyer. The latest official completed price data, still running to June, put London down 2.5% annually on the Land Registry measure and London flats down 4.7%, lagging evidence but consistent with the fresher asking price weakness. Across the regional table this week, London posted the weakest combined annual and monthly reading of any listed region.

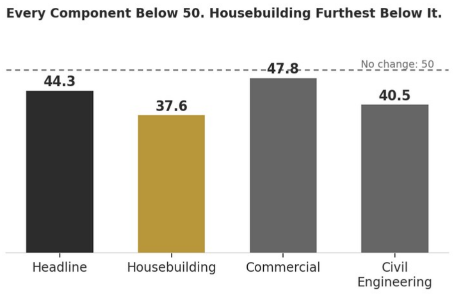
Prime London is where the liquidity before pricing story is sharpest. Combined prime central and prime outer London transactions ran 2% above the 5 year average in the 3 months to August, with outer London transactions 10% above that average and central London transactions still 8% below it despite a 6% improvement on 2025. Prime central London prices remain down 3.3% year on year, a fall of 23% over 11 years, while prime outer London prices are down a more modest 0.4% year on year. Knight Frank's own commentary is candid about the mechanism: buyers are using pre Budget speculation and bond market jitters to negotiate price down rather than walking away from deals. That negotiating leverage is also visible in Knight Frank's development land data, where prime central London land values fell 1.0% in the quarter and 3.0% over the year, evidence that the capital's own market is already repricing viability ahead of the wider data catching up.

REGULATORY AND POLICY DEVELOPMENTS

The revised National Planning Policy Framework, published on 17 August, is the clearest pro supply signal policy has sent in some time. It carries a stronger presumption in favour of housing near well served train, tram and underground stations, minimum density expectations in relevant locations, and a broader set of measures intended to accelerate development. Read in isolation, that is unambiguously good news for anyone trying to build homes in England.

Read alongside this week's construction evidence, it looks like policy solving last cycle's problem. S&P Global's August construction PMI fell to 44.3, its 20th consecutive month below the no change threshold of 50, and the housebuilding component alone fell to 37.6, a level that describes contraction, not a slowdown. Commercial activity held at 47.8 and civil engineering at 40.5, both still below 50. Official ONS data, still running to Q2, showed total construction output up a modest 0.3% quarter on quarter but new orders down a sharp 11.8% over the same period, and the July output release due on 11 September will be the first real test of whether that order collapse is starting to show up in delivered output. Turner and Townsend's 2026 outlook ranks London among the world's most expensive construction markets and forecasts cost escalation of 3.5% in both 2026 and 2027.

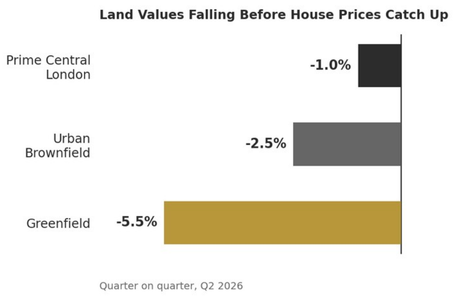
Crest Nicholson is this week's clearest single piece of evidence. It cut its FY26 completion guidance to a range of 1,350 to 1,400 homes from 1,400 to 1,500, and now expects an EBIT loss of around £10m for the year, versus prior guidance of £5m to £10m of profit, citing weaker open market demand, competitive pricing and additional site provisions. It still expects year end net debt of £70m to £90m, around £30m better than previous guidance, while continuing lender discussions on covenant amendments. On the same day, the Greater London Authority corrected the Draft London Plan's own housing need figures, to 238,430 low cost rent homes and 129,020 intermediate homes by 2037, taking the combined affordable share to 66% rather than the previously published 60%. The Draft Plan proposes 558,000 homes over the next 10 years against a Government assessed need of around 850,000 over the same period, and the consultation on that gap closes on 15 October. **Planning reform cannot underwrite a scheme that does not stack.**



Source: S&P Global UK Construction PMI, 4 September 2026

Housebuilding Is The Weak Point

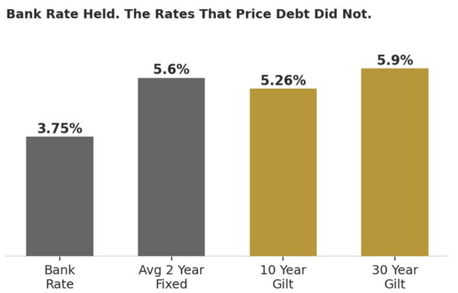
Every construction sub sector sits below the no change threshold in August, but housebuilding is falling fastest, the clearest signal yet that delivery capacity, not appetite, is now the binding constraint.



Source: Knight Frank Residential Development Land Index, Q2 2026

Development Land Is Repricing First

Land values are falling ahead of house prices, greenfield hardest hit and prime central London most resilient but still negative. The market is already underwriting viability in real time.



Source: Bank of England; Financial Times; Moneyfacts, 1 to 4 September 2026

The Funding Backdrop Just Got Harder

Bank Rate has not moved since July, but every rate that actually prices new lending and development finance moved against borrowers in the first week of September.

HOUSING PMI	PCL LAND VALUE	10 YEAR GILT	CREST NICHOLSON EBIT
37.6 ▼	**−3.0% ▼**	**5.26% ▲**	**−£10m ▼**
20th month below 50	*Knight Frank Q2, year on year*	*Highest since 2008*	*Guided from £5m to £10m profit*

Sources: S&P Global, Knight Frank, Bank of England, Crest Nicholson RNS. Data as at week ending 6 September 2026.

DAVID'S VIEW

This is not a housing supply problem. It is a delivery economics problem, and no amount of planning reform fixes that on its own.

The same gilt shock that pushed the effective rate on new mortgages to 4.45% also lifts the discount rate a developer uses to underwrite land, and it has arrived at the exact moment Crest Nicholson is naming weaker open market demand as the reason it now expects a loss rather than a profit. Financing conditions and sales absorption are moving against developers at the same time, from the same underlying cause.

London shows the clearest early evidence of the adjustment. Prime central London land values are down 1.0% on the quarter alone, a faster moving signal than the annual house price data, in the same market where prices are still down 3.3% on the year. The land market is already repricing what a scheme is worth to build without waiting for the wider data to confirm it. That is not panic. It is discipline arriving ahead of the headlines.

This market rewards the developer who underwrites to today's cost of capital, not the one still pricing off a curve that existed in July. Volume chasers who assumed rates would ease before their schemes complete are the ones renegotiating covenants next.

At Sandhütel, every acquisition and repositioning decision gets tested against current financing and sales absorption, not against what planning policy says should be possible. Permission is table stakes. Viability is the decision that actually matters.

“Planning opened the door. Financing decided who could walk through it.”

THE WEEK AHEAD

Monday 7 September brings the Lloyds House Price Index for August at 07:00, a second lender based read on whether Nationwide's small bounce holds or fades.

Friday 11 September delivers 2 releases at once: ONS's July monthly GDP estimate, and the release that matters most for this week's argument, ONS's official construction output for July. That print is the direct cross check against August's construction PMI collapse to 37.6 in housebuilding, and it will show whether survey sentiment is now visible in hard output data or is still running ahead of it.

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