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Week ending Sunday 23 August 2026 · sandhutel.com

House Prices Rose Two Percent This Year. In Real Terms, They Fell.

THIS WEEK AT A GLANCE

- Nominal growth is no longer the number worth trusting.
- London's long correction has stopped looking like an outlier and started looking like a preview.
- Sellers anchored to last year's asking price are financing this year's inflation out of their own equity.

Every figure released this week described a market that is still growing. None of them described a market that is still worth what it was. That distinction is the whole story this week, and once it shows up in the national numbers it is impossible to unsee in the London ones. UK completed prices rose 2.0% over the past year while inflation ran at 2.9%, nearly a full point ahead of that growth, which means the market that looks steady on paper is quietly losing ground in real money.

None of this is new to anyone who has watched Prime Central London for the past decade. What is new is that the same mechanism has now reached the mainstream market, inside a single set of monthly figures rather than across an eleven-year chart. **The market did not need a crash to lose value this week. It only needed inflation to run faster than the number everyone was celebrating.**

That is the frame for everything that follows: rates that remain expensive by any recent standard, a transaction market that rewards precision over confidence, a London market that has been quietly rewriting the national script for the better part of a decade, and a planning reform that changes what can be built without changing what it costs to build it.

Rates And Lending

The Bank of England is not the price maker in this market this month. The swap curve and each lender’s own risk appetite are. Bank Rate held at 3.75% on 30 July, on a vote of six to three, with three members preferring an immediate quarter point rise. That split matters because it tells you the committee is no longer united on direction, and it leaves the next decision, due on 17 September, genuinely open in both directions.

Underneath that headline hold, actual borrowing costs kept climbing. The effective rate on newly drawn mortgages rose to 4.35% in June from 4.22% in May, and Moneyfacts put the average new mortgage rate at 5.59% at the start of August, up from 5.47% in July, with the average two-year fix at 5.63% and the average five-year fix at 5.66%. By 21 August those market averages had eased marginally to around 5.60% and 5.63%, while selected products at 60% loan to value were priced closer to 4.47% to 4.51%. **A borrower who shops the market properly is paying close to a full percentage point less than one who accepts the average, and that gap is now the real underwriting decision, not the base rate.**

None of that is abstract. A full percentage point on a mortgage is the difference between a deal that clears an affordability stress test and one that does not, and it compounds every month it is left unaddressed. Net mortgage borrowing still rose to £7.7bn in June from £3.3bn in May, and purchase approvals improved to 58,200 from 56,600, so credit is available. The question this week is not whether lenders will lend. It is whether borrowers are disciplined enough to find the rate that is actually on offer rather than the one that is merely advertised.

Demand And Transaction Activity

Transaction volumes are not the problem this week. Pricing conviction is. HM Land Registry's own count puts UK residential transactions at around 99,000 in June, seasonally adjusted, roughly 2.5% higher than a year earlier, and completed prices are still rising on an annual basis. Neither of those facts describes a market in retreat. Both sit alongside sellers who are quietly admitting, in the way they price, that last year's number no longer works.

Rightmove's asking prices fell 2.0% on the month to £364,999 in August, the largest August fall since 2018, and stock on the market is higher than any August since 2014. Buyer demand improved 5% from late July, but Rightmove itself was careful not to call that durable, and RICS members remain more cautious than the transaction data alone would suggest, reporting a net balance of minus 28 for new buyer enquiries and minus 30 for agreed sales in July. Zoopla's own read shows sales agreed still 9% below year earlier levels, with a meaningful share of homes listed since the second quarter still on the market without having taken a price cut.

That gap between asking and achieved is the whole transaction story compressed into one line. It is not that transactions are weak. It is that the sellers still transacting at pace are the ones who accepted this year's price, and the ones sitting unsold are the ones still defending last year's.

London

London is not underperforming the country this week so much as previewing it. HM Land Registry put the average London price at £553,870 in June, down 2.5% year on year and marking a tenth consecutive month of annual decline, driven primarily by Inner London. Every other English region on Land Registry's own regional table posted a positive annual figure this month. London is the only one that did not.

The divergence beneath that single London number is the more useful evidence. Westminster is down 25.4% year on year, the City of London down 20.4%, Kensington and Chelsea down 14.7%, while Barking and Dagenham, Havering, Redbridge and Haringey are all posting annual growth. That is not one London market correcting. It is a handful of high value, high tax exposure postcodes absorbing a decade of policy pressure while outer London quietly behaves like the rest of the country.

Knight Frank's Prime Central London index fell 3.3% year on year in July, the 39th consecutive month of annual decline, with values now 23% below their mid 2015 peak in nominal terms alone. Run that nominal decline against eleven years of accumulated inflation rather than against itself, and the true loss in spending power is a materially larger number than the headline suggests. **That is not a London specific curiosity. It is the same mechanism sitting in this week's national completed price figure, just compressed from a decade into a single year.**

There is a genuine improvement layered under that decline. Knight Frank recorded London transactions up 14% year on year in the three months to July, and Prime Central London transactions up 3%, though both remain 7% below their level two years earlier. For buyers with cash or clean financing, a market still 23% cheaper than 2015 and beginning to transact again is the closest thing London has offered to a genuine entry point in a decade. For landlords, the calculation is different again: rents in prime outer London rose 3.2% annually to July, so the income line is recovering even where the capital line is not, and that split is exactly where a leveraged owner needs to know which number their debt is actually being serviced by.

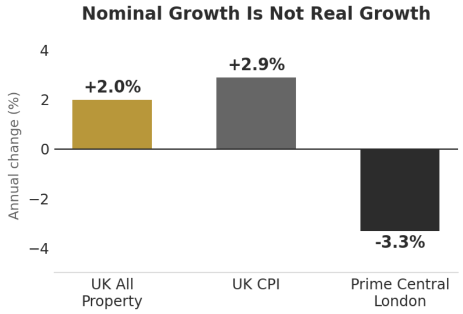
Regulatory And Policy Developments

Planning just got easier at the exact moment development finance got harder, and that timing is the whole point of this week's policy news. Government published a new National Planning Policy Framework on 17 August, setting a default pro housing stance within reasonable walking distance of well-connected train, tram and underground stations, alongside minimum housing density expectations, an accessible homes requirement of 40% on major developments, and support for AI growth zones and data centres.

None of that changes what land is actually worth to a developer running today's numbers. Greenfield land values fell 5.5% over the quarter and are down 3.0% over the year, urban brownfield fell 2.5% over the quarter and 5.0% over the year, and prime central London land is down 1.0% over the quarter and 3.0% over the year. Knight Frank's survey work behind those figures found 64% of housebuilders naming planning delay as a current constraint, with buyer sentiment now the biggest anticipated headwind for the third quarter, and build cost inflation still forecast at 4.7% for the year.

Read the two facts side by side and the message for anyone underwriting a scheme is straightforward. A more permissive planning policy widens what can be approved. It does nothing to widen what a scheme can afford to pay for the land beneath it while borrowing costs, build costs and sales rates are all still working against viability. Falling land values are not a policy failure. They are the market doing the only adjustment available to it while the finance side of the equation stays this expensive.

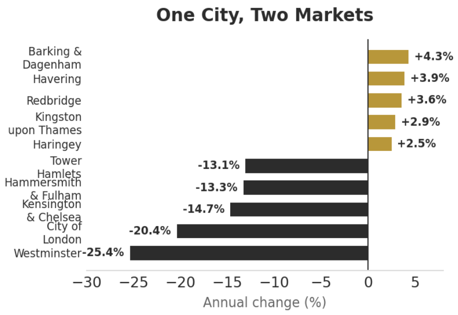
Rental policy is running the same real-world test. The core private rented sector tenancy reforms took effect on 1 May, and Knight Frank already attributes part of this year's prime rental supply shortage, with listings across prime and prime outer London still 14% below their five-year average, to landlords adjusting behaviour and advertised rents ahead of the new framework. Cause and effect is not yet proven in the official rent series. But the direction landlords are moving in is not in doubt, and every unit a cautious landlord withholds from the market is downward pressure on supply that shows up in someone else's rent.



Nominal Growth Is Not Real Growth

UK completed prices rose 2.0% over the year, comfortably behind the 2.9% rise in the cost of everything else. Prime Central London shows where that gap ends up if it runs uncorrected for over a decade rather than one year, prices down 3.3% annually and 23% below their 2015 peak in nominal terms alone.

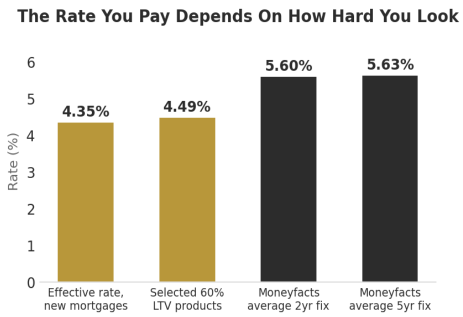
Source: HM Land Registry UK HPI, June 2026; ONS CPI, July 2026; Knight Frank Prime Central London, July 2026.



One City, Two Markets

The gap between London's weakest and strongest boroughs is now wider than most regional housing markets. Westminster and the City of London are absorbing the sharpest correction in the country while Barking and Dagenham, Havering and Haringey post growth that would look ordinary anywhere else in England.

Source: HM Land Registry UK HPI, England, June 2026.



The Rate You Pay Depends On How Hard You Look

The average advertised rate and the rate borrowers are actually completing at sit more than a point apart. A borrower who shops the full market, rather than accepting the headline average, is effectively buying back a meaningful share of this year's inflation through the financing line alone.

Source: Bank of England Money and Credit, June 2026; Moneyfacts, 10 and 21 August 2026.

BANK RATE	UK CPI, ANNUAL	LONDON, ANNUAL	PRIME CENTRAL LDN
3.75% —	**2.9%** ▲	**-2.5%** ▼	**-3.3%** ▼
Held 30 Jul · next MPC 17 Sept	*Up from 2.6% in June*	*HMLR · tenth straight fall*	*Knight Frank · 39th straight month*

Sources: HM Land Registry, ONS, Bank of England, Rightmove / Podium, Moneyfacts, Zoopla, RICS, Knight Frank. Data as at week ending 23 August 2026.

MARKET COMMENTARY

Growth and loss are not opposites this week. They are the same number, read two different ways.

Put the rates picture and the London picture next to each other and the argument writes itself. Borrowers who accept the average mortgage rate are paying close to a full point more than the market actually offers. Sellers in Prime Central London who accept the average narrative, that the market simply corrected and is now recovering, are missing that the correction never stopped. It just started compounding against a decade of inflation instead of against itself. Both mistakes share the same root cause: mistaking the published average for the number that actually applies to you.

The national completed price figure makes the same point in miniature. Two percent growth against inflation running at 2.9% is not a resilient market. It is a market losing value slowly enough that the loss does not make a headline. Rightmove's own asking price falls and Zoopla's still unresolved reduction pipeline are the market beginning to price that reality in ahead of the official indices catching up, which is exactly the sequence London has already lived through for the better part of a decade.

This is a market that rewards owners who know the difference between a rising number and a growing asset, and it punishes everyone who assumes the two are the same thing.

At Sandhütel, every acquisition is underwritten against real, inflation adjusted return, not the nominal figure a seller or a headline chooses to lead with. That discipline is what turns a decade like Prime Central London's just lived through from a warning into an opportunity, and it is the same discipline this week's national figures are now asking the rest of the market to learn.

The Week Ahead

The coming week is a funding story before it is a pricing story. The Debt Management Office opens its quarterly consultation on the gilt issuance programme on 24 August, the clearest early signal of whether the composition of new borrowing will ease or extend the pressure sitting at the long end of the curve, the same pressure keeping mortgage pricing higher than Bank Rate alone would suggest.

Friday 28 August brings two releases that matter more to this week's argument than any single headline number. Nationwide's August House Price Index, published at 6am, is the first higher frequency check on whether the softness showing up in Rightmove's asking prices and this week's Land Registry data is broadening or staying contained. HMRC's July property transaction figures follow at 9.30am, testing whether June's modest improvement in completed sales carried through the month or faded with it.

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