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Week ending Friday 7 August 2026 · sandhutel.com

Borrowing Costs Fell This Week. London Prices Fell Anyway.

THIS WEEK AT A GLANCE

- Lenders will keep testing lower pricing even though the Bank is nowhere near a cut.
- London sellers face a market that prices conviction, not postcode, into every offer.
- Regulators are turning their attention to how property lenders outside the banking system fund themselves.

Two things happened in property finance this week, and neither waited for the other. Gilt yields and swap rates eased across most of the curve. UK house prices, on the index that used to carry Halifax's name, went nowhere at all.

That is not a contradiction. It is price discovery working as it should. Cheaper funding lowers the floor under what a lender can offer. It does not raise the ceiling on what a buyer can actually pay.

Three members of the Monetary Policy Committee still want rates higher, not lower, and markets continue to price further tightening ahead. That does not change the offer a borrower can get this week. It changes how much confidence anyone should place in the offer lasting.

Rates And Lending

The Bank of England held Bank Rate at 3.75% on 30 July. The committee split six votes to three in favour of holding, with three members wanting an immediate rise to 4.00%. The next decision falls on 17 September, and that is a genuine division over direction.

Funding costs moved further than the committee did. The ten year gilt yield fell to 4.9255% from 5.0500%, and the five year swap rate, which sets fixed mortgage pricing more than Bank Rate itself, fell to 4.493% from 4.609%. Advertised pricing shows the relief unevenly shared: the average two year rate at 60% loan to value is 4.68% against 5.68% at 95%. Net mortgage borrowing reached £7.7bn in June, yet the effective rate on newly drawn mortgages was 4.35%, well below advertised pricing today.

Savills flagged markets still pricing in two base rate rises over the coming months, even as those same markets pushed medium term funding costs lower this week. Short term relief and medium term caution are not incompatible. **Treat this week's pricing as a window, not a trend.**

Demand And Transaction Activity

Transaction volumes look steadier than sentiment. HMRC recorded 98,700 seasonally adjusted UK residential transactions in June, up 2% on the year, though Chris Watkin's weekly tracking shows gross sales agreed at 24.0k against a ten year average of 24.8k. RICS members are more downbeat again, reporting a net balance of minus 29% for new buyer enquiries and minus 33% for house price expectations in June.

Pricing behaviour is where the caution shows most clearly. Rightmove's national average asking price fell 1.0% on the month to £372,359, and 14.3% of homes on the market carried a price reduction in June. Reduced homes are taking 127 days to sell against 36 days for those priced correctly from the outset, a gap sellers are paying for in patience rather than cash.

The supply side offered rarer good news. The construction PMI rose to 44.7 in July from 34.4 in June, and Persimmon reported 5,189 first half completions, up 13%, with pretax profit up 15% to £168m. Building more homes only helps if buyers can finance them at the price offered. On this week's demand data, that remains the constraint.

London

London is where this week's price discovery is most visible. Lloyds recorded annual growth of minus 1.3% for Greater London in July, with the South East down 2.0%. The ONS, working from completed transactions and reporting with more of a lag, put annual London growth at minus 3.7% in May, with Inner London down 5.9%. The two disagree on scale but agree on direction. London has now recorded nine consecutive months of annual price falls on the ONS measure.

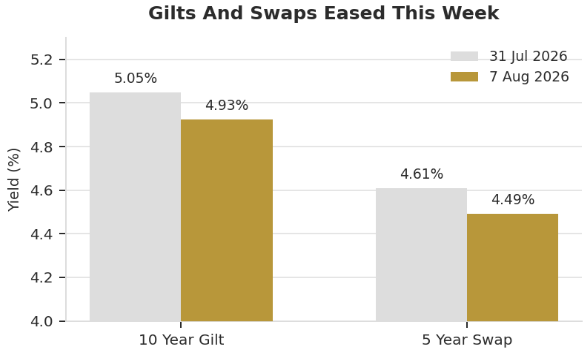
Rightmove's asking price data points the same way, down 1.6% on the month to £676,248, with the average time to secure a buyer stretching to 70 days. Knight Frank's prime central London index fell 3.6% annually in June, the second straight month of decline, with transactions down 14%. Prime outer London is more mixed: down only 0.4% annually, yet offers there rose 5% even as transactions fell 7%.

Rental performance is running in the opposite direction to sales, and that divergence is the real London story this year. Average rent reached £2,302 a month in June, up 2.2% on the year, with Kensington and Chelsea averaging £3,596. **Owners are watching capital values fall while rental income keeps rising, which changes the return calculation for anyone holding London property as an asset rather than a home.**

Regulatory And Policy Developments

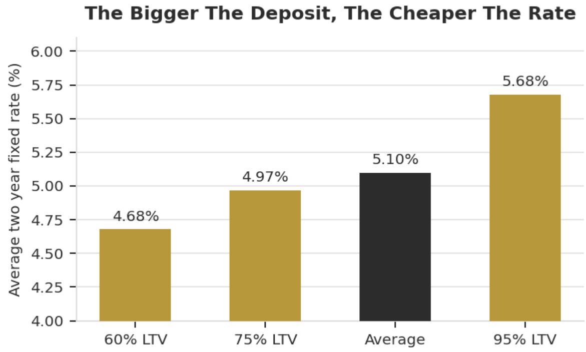
The most consequential regulatory story of the week did not originate at the Bank of England. The Financial Times reported that the FCA has increased scrutiny of around 900 Annex 1 financial firms following the collapse of specialist property lender Market Financial Solutions, with creditors facing a reported £1.3bn shortfall and £250m unaccounted for. Expect more scrutiny of specialist and bridging lenders over the coming months, not less.

Basel 3.1 takes effect in the UK on 1 January 2027, raising the capital banks must hold against property lending. The Draft London Plan consultation closes on 15 October. **Cheaper headline funding does not mean easier underwriting, wherever the capital comes from.**



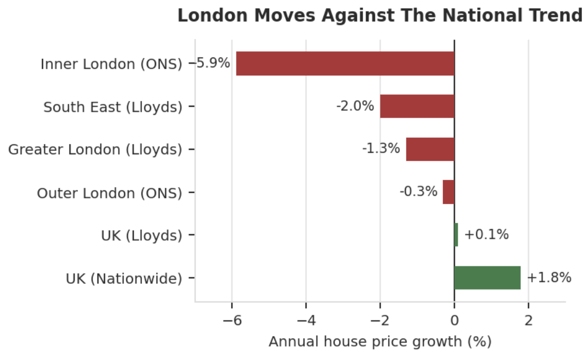
Ten year gilts and five year swaps both fell this week, giving lenders more room to compete on fixed rate pricing.

Source: Investing.com UK, 7 August 2026



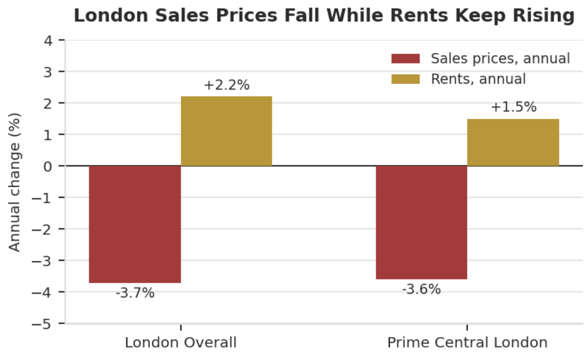
Pricing still rewards deposit size first. The gap between 60% and 95% loan to value pricing is exactly one percentage point.

Source: Rightmove / Podium, 7 August 2026



Greater London and the South East are the only major regions still recording annual price falls this week, on either measure.

Source: Lloyds House Price Index / ONS UK HPI, 7 August 2026



London sales prices and London rents are moving in opposite directions, and the gap between them remains wide.

Source: ONS Private Rent and House Prices / Savills, 22 July and Q2 2026

KEY DATA POINTS

BANK RATE	5 YEAR SWAP	LONDON, ANNUAL	CONSTRUCTION PMI
3.75% ●	**4.49%** ▼	**-1.3%** ▼	**44.7** ▲
Unchanged, next MPC 17 Sept	*Down from 4.61% last Friday*	*Lloyds, Greater London, July*	*Up from 34.4 in June*

Sources: Bank of England, Lloyds House Price Index, Nationwide, Rightmove / Podium, HMRC, RICS, Chris Watkin / Property Industry Eye, ONS, Knight Frank, Savills, S&P Global, Persimmon, Investing.com UK. Data as at week ending 7 August 2026.

MARKET COMMENTARY

Funding got cheaper this week. The market did not get easier.

Two markets moved in opposite directions this week. Gilts and swaps gave lenders room to compete. London property kept adjusting down regardless.

That is not lenders failing to pass on relief. Bank Rate, swap pricing and achieved prices are three separate mechanisms that only occasionally move together. This week they did not: gilts and swaps fell, yet the average two year fixed rate still sits at 5.10%, while London recorded its ninth consecutive month of annual price falls on the ONS measure.

Basel 3.1 arrives on 1 January 2027 and will raise the capital cost of property lending before most borrowers notice the date. The FCA's widened scrutiny of Annex 1 firms after Market Financial Solutions' collapse, and this week's Ares private credit repricing, show the same discipline reaching bank and institutional capital alike. Cheaper swaps this week do not offset any of it. They simply set the starting line from a slightly better position.

My view is that London's price falls are not a demand problem. Rental growth in the same postcodes tells you the demand is real. What is missing is financeable demand at today's asking prices, and a swap rate falling twelve basis points will not close that gap. Policy will not solve it either: the London Assembly has delivered only 14,335 affordable starts against a revised target of 17,800 to 19,000.

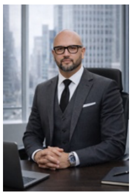
This is a market that rewards conviction over confidence, and precision over hope. Buyers with financing underwritten before they offer are negotiating from strength against sellers who increasingly need to transact. Landlords who model net return, not gross rent, will still be holding property comfortably when Basel 3.1 lands. Those waiting for a rate cut to make a stalled scheme work are waiting for a rescue, not managing a business.

At Sandhütel, that is the distinction we work to every week. Better structure and better underwriting are not a hedge against uncertain policy. They are the only response to it that does not depend on someone else changing their mind first.

THE WEEK AHEAD

The Greater London Authority opens Draft London Plan consultation sessions on Tuesday 11 August and Thursday 13 August, both feeding into the wider consultation that closes on 15 October.

Thursday 13 August also brings the ONS's first estimate of second quarter GDP, June's monthly GDP, construction output and UK trade data, the first real test of whether July's PMI improvement is more than sentiment.



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