SANDHÜTEL · REAL ESTATE WEEKLY
Week ending 3 July 2026 · sandhutel.com

The Approval Boom Has Broken. The Rate Gap Explains Why.

THIS WEEK AT A GLANCE

- Mortgage approvals reversed hard in a single month. That is not noise. It is demand meeting a ceiling.
- New borrowers are now paying more than the back book average. The cost of entering the market is climbing while the base rate stands still.
- Buyer sentiment and lending data are finally telling the same story. Enquiries, agreed sales and approvals all moved together this month.

For six months this publication has followed the same signal. Approvals kept climbing, lenders kept repricing ahead of the MPC, and demand looked like it was building into something durable. This week broke that pattern.

The reversal was not gradual. It arrived in a single month, large enough to erase most of the gains this publication tracked through the spring. Net mortgage approvals for house purchase fell to 56,200 in May, down from 66,000 in April, the lowest reading since December 2023.

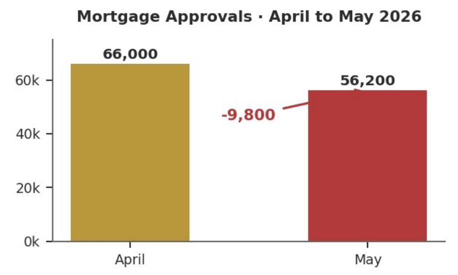
This is not a story about weaker interest. It is a story about a pipeline that met the limits of what buyers can currently afford.

Borrowing got more expensive at exactly the point buyers needed it to get cheaper. The effective rate on newly drawn mortgages rose to 4.22% in May, thirty basis points above the 3.92% average sitting on the back book. Every new borrower entering the market is now paying more than the stock of existing borrowers already locked in. That gap is the mechanism behind the approvals fall. Four lenders repriced ahead of the Bank of England through June, but none of it has reached new completions yet. The Bank Rate held at 3.75% at the June MPC meeting. Until it moves, new borrowers keep paying a premium the approvals data is already responding to.

Every demand indicator moved the same direction this month, and that consistency is the real signal. RICS reported buyer enquiries at a net balance of minus thirty four percent in May, with agreed sales at minus thirty seven. HMRC recorded a two percent monthly fall in seasonally adjusted transactions, to 98,450. Nationwide's headline annual growth rose to 2.2%, but that figure is backward looking, capturing deals agreed months ago under different financing conditions. Rightmove's forward looking measure told a different story, with average asking prices posting their largest June fall in fourteen years. Sellers are responding to what buyers can actually borrow now, not what they could borrow in the spring.

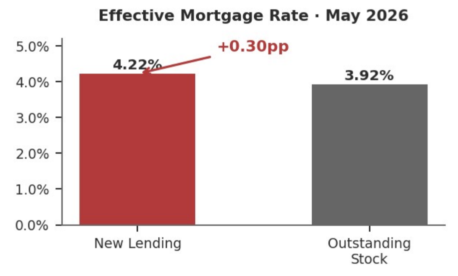
London is not exempt from this reversal, and the timing lines up. London private rent inflation sits at 2.0%, the lowest of any English region, which tells you the ceiling on what tenants can absorb has already been reached. Renters cannot pay more, so landlords cannot raise more, so the pressure that used to show up in rents now shows up in vacancy and yield instead. Buyers face the same affordability wall from the other direction. A borrower priced out of ownership does not disappear. They become a tenant competing for the same limited stock, in a market where rent growth has already stalled. London is not a separate story from the national approvals reversal. It is the sharpest version of it.

Two regulatory moves this month point toward more lending flexibility later this year, not less. The FCA opened a consultation on 9 June reviewing mortgage rules that constrain lending to first time buyers and other underserved borrowers, closing 28 July. The Bank of England confirmed Basel 3.1 implements from 1 January 2027, with the internal models approach delayed a further year to 2028. Both signal a regulatory environment preparing to loosen constraints currently suppressing approvals more than the base rate itself.



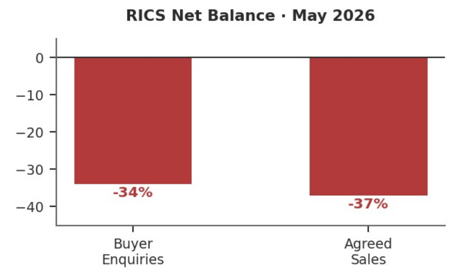
Approvals fell from 66,000 in April to 56,200 in May, the lowest reading since December 2023. This is the sharpest single month reversal this publication has tracked. The lending pipeline highlighted in June just met a buyer pool that cannot keep filling it.

Source: Bank of England Money and Credit · May 2026



New borrowers are paying 4.22% against a back book averaging 3.92%. That thirty basis point gap is the direct cost of entering the market today versus the rate most existing borrowers are still paying. It is a meaningful part of why approvals just fell.

Source: Bank of England Money and Credit · May 2026



Buyer enquiries and agreed sales both deteriorated in May, at minus thirty four and minus thirty seven respectively. Sentiment and hard lending data are now confirming each other, which removes any argument that the approvals fall was a one off.

Source: RICS Residential Market Survey · May 2026

BANK RATE	MORTGAGE APPROVALS	EFFECTIVE NEW RATE	ASKING PRICES
3.75% ▬	**56,200** ▼	**4.22%** ▲	**-0.6%** ▼
UNCHANGED · Held 18 June	*May 2026 · down from 66,000*	*May 2026 · +30bp vs back book*	*June 2026 · biggest June fall in 14 yrs*

MARKET COMMENTARY

> ***Affordability broke this market, not interest rates. That is the harder problem to fix.***

I have written for two weeks about a lending pipeline building faster than the market could see it complete. This week the pipeline met its limit. Net mortgage approvals fell to 56,200 in May, the lowest reading since December 2023, and they fell for a specific reason. New borrowers are paying 4.22% against a back book still averaging 3.92%. That thirty basis point gap is not a rounding error. It is the exact mechanism separating buyers who can transact from buyers who cannot.

Read the RICS and Rightmove data alongside that rate gap and the picture tightens further. Buyer enquiries and agreed sales are both deeply negative, and sellers have responded with the sharpest June asking price cut in fourteen years. That is not a market losing confidence. It is a market pricing itself back toward what current borrowing costs will actually support. London shows the same mechanism in its purest form, where rent inflation has already hit a regional floor and buyers priced out of ownership are simply adding pressure to a rental market that cannot absorb much more.

This is not a stalled market. It is a market resetting to what buyers can actually afford. The approvals data will recover once new lending rates close the gap with the back book, or once buyers adjust their expectations to match what is currently available. At Sandhütel we are pricing every acquisition against the rate a buyer can secure today, not the rate we expect the Bank of England to deliver eventually. That discipline is what separates a deal that completes from one still waiting for a cut that has not arrived.

THE WEEK AHEAD

Halifax publishes its June House Price Index on Tuesday 7 July. After Nationwide's stronger annual figure and Rightmove's weaker asking price data this week, Halifax is the tie breaker. Watch whether it tracks the completed sale story or the forward looking one.

ONS releases its real time economic activity indicators on Thursday 9 July, followed by foreign affiliate statistics on Friday 10 July. Neither will move the property market directly, but the real time indicators are worth watching for any early signal on whether April's GDP contraction was a one off or the start of a trend that gives the MPC more room to cut.

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