



London Housing: Correction to Accelerate Into the Second Half of 2026

Teneo Insights | June 2026



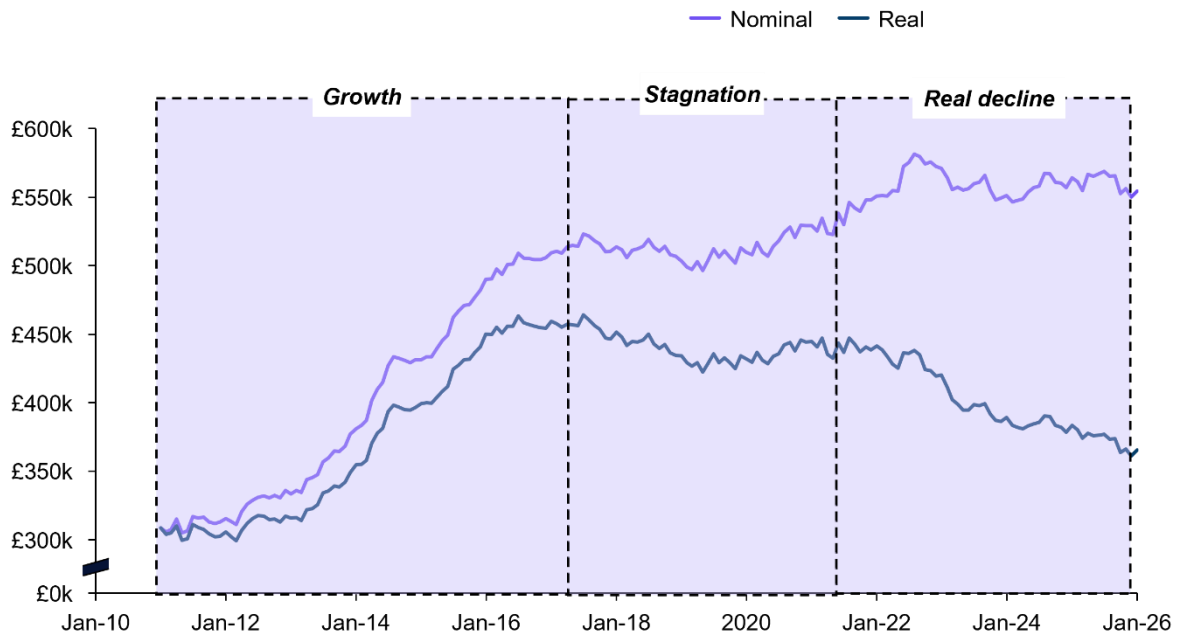
Behind the headlines, London housing is recalibrating after the mortgage-rate reset, with declines concentrated in flats and ultra-prime homes. Pressure is currently sharpest for younger, leveraged buyers but is likely to spread across the market.

What Is Really Happening to the London Property Market?

London's Property Market Has Entered a Period of Correction

Since 2021, London house prices have fallen by an estimated 10-15% in real terms, marking a material reset in the capital's housing market (see Figure 1). Over the past 12 months, nominal prices have declined by 1.7%, with forward indicators suggesting further softness ahead. This correction is principally a mortgage-rate and valuation reset, amplified by stretched affordability, weaker investor demand and shifting buyer preferences.

Figure 1: London Average Housing Price, Nominal and CPIH Adjusted



Sources: ONS; Teneo research and analysis

Affordability Pressures Are Driving Market Correction, With Annual Homeowning Costs Rising 50-100%

Since 2021, the UK has experienced cumulative inflation of c.20-25%, driven by energy volatility, post-COVID disruption and geopolitical uncertainty. Wage growth has lagged rising costs, while higher mortgage rates and tighter buy-to-let regulation have reduced affordability and compressed housing valuations.

Housing impacts have been delayed as homeowners deferred selling rather than accept lower prices; however, pressure is now feeding through, with London seeing increasingly widespread price reductions.

Market Weakness is Real, but Crash Narratives May Be Overstated

Some of the recent decline can be explained by weaker affordability. However, the market narrative is increasingly being shaped by a steady flow of alarmist reporting, with stories of properties selling well below their purchase price and double-digit nominal asking price reductions in parts of London.

A broad-based collapse in London housing, as implied by some of this coverage, would have severe economic consequences. With the capital's housing stock valued at c.£2.6 trillion and property representing the largest store of household wealth, a sharp correction would weigh heavily on household balance sheets, confidence and consumer spending.

Recent headlines provide a useful illustration of how this narrative has developed.

THE NEW STATESMAN

The housing market has already crashed

The Standard

The big slump: Is London's property market in crisis?

THE WEEK

Are UK house prices about to crash?

Four Property Segments Appear Most Exposed, With Deterioration Expected to Continue

- **Ultra-Prime Properties:** 3.7% price fall (nominal) among properties worth over £5 million.
- **Flats:** 45% of Help to Buy flats were sold at a loss relative to 2024-25 purchase prices.
- **Regional Variation:** Steep falls in Kensington and Chelsea, City of Westminster and Tower Hamlets.
- **Areas Under Regeneration or “Gentrification:”** Buyers of properties near major regeneration schemes pay a “regeneration premium” of 0.3-5.8% compared to prices in the wider borough.

Why Are Some Parts of the Market Underperforming?

1. Ultra-Prime Prices Are Falling as Demand Weakens

Transaction costs have risen materially, with SDLT changes increasing costs for second homeowners, investors and corporate buyers. The second-home surcharge rose from 3% to 5% in late 2024, weakening discretionary and investment-led demand.

International demand has softened, leaving the market thinner and more price-sensitive. This reflects weaker global capital flows, the Russia-Ukraine conflict and some erosion of London's financial centre dominance.

Higher mortgage and long-term rates have compounded the pressure, increasing debt costs, lowering asset values and weakening financed domestic prime demand.

Prime Central London

-3.7%

Annual price decline to June 2025

2. Flats Face Continued Pressure from Cladding, Leasehold Reform and Help to Buy

Flats in London have faced a particularly challenging market. Help to Buy pulled forward demand and concentrated activity in new-build flats without resolving affordability. Since its withdrawal, this segment has been more exposed to higher mortgage rates, weaker confidence and fewer first-time buyers able to meet affordability tests. In buy-to-let-heavy areas, higher debt costs have also pushed some landlords from buyers to sellers.

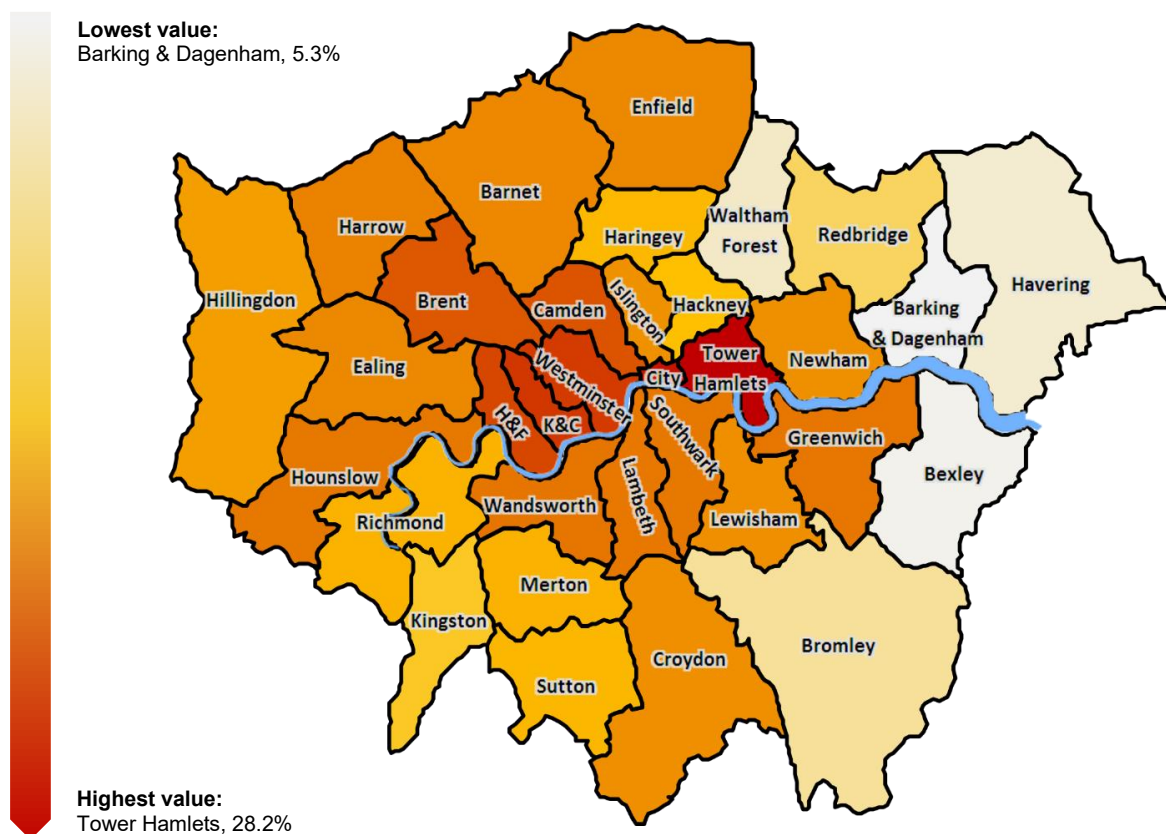
Proportion of Help to Buy flats sold at a loss, by year of sale

14%
2014-2015

45%
2024-2025

These pressures are increasingly being reflected in resale values, with a growing proportion of vendors across many London boroughs selling for less than they originally paid (see Figure 2).

Figure 2: Proportion of London Vendors Selling for Less Than They Originally Paid (2025)



Source: Hamptons, Land Registry

At the same time, the total cost of flat ownership has risen materially. Service charges, already the highest in the country, have increased by 41% over five years, while higher building insurance and building safety-related costs have further reduced relative attractiveness versus houses. For many buyers, this has weakened the value proposition of flats, particularly where monthly ownership costs are less predictable.

The market has also been weighed down by the post-Grenfell backlog of cladding remediation and associated paperwork, which has delayed transactions and reduced lender appetite in affected buildings. There are now 4,310 residential buildings identified with unsafe cladding, of which only 35% have completed remediation works, with the issue concentrated in urban areas, particularly Greater London.

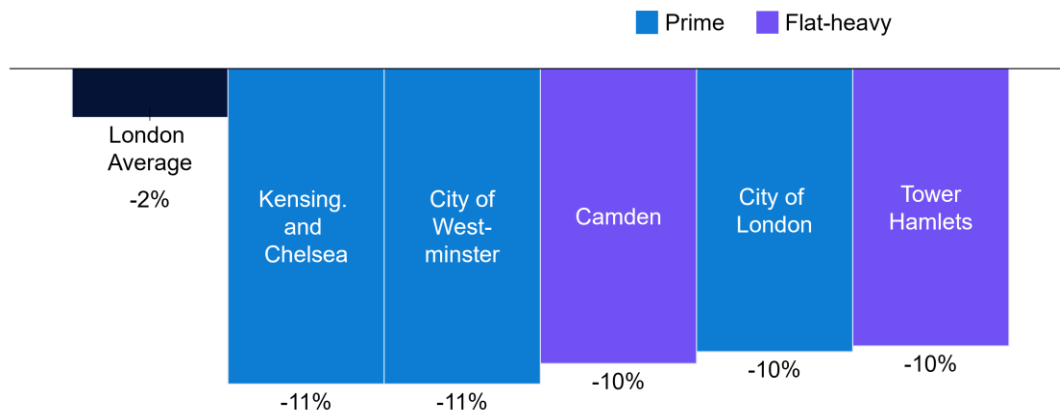
This has left London flats facing weaker demand, higher ownership costs, transaction friction and, in buy-to-let-heavy areas, extra sale supply from landlords whose debt costs have caught up with rental yields.

Sources: Savills; Homes England; GOV.UK; ONS, Land Registry; MHCLG; JLL; Teneo research and analysis

3. Mix of Housing Stock, Not Geography, Explains the Sharpest Regional Falls

Local variation reflects the area’s housing mix rather than geography, with price declines most pronounced in ultra-prime locations such as Kensington and Chelsea, and areas which have a high proportion of flats, particularly new-builds, such as Tower Hamlets, where more than 28% of vendors sold last year for less than they paid (see Figure 3).

Figure 3: Average Overall House Price Versus Worst Performing Boroughs (January 2025-26)



Source: ONS

4. Markets That Priced in Future Regeneration Are Now Under Pressure

Between 2010 and the early 2020s, parts of London saw significant housebuilding, often marketed around future regeneration or “gentrification”. Buyers paid not only for the asset itself, but for expected uplift from better transport, amenities, public realm and wider investment.

Where regeneration has been delayed, diluted or failed to improve local desirability, prices have come under greater pressure. Some buyers effectively paid upfront for benefits not yet delivered, leaving these markets more exposed as affordability tightened.

Deptford and Tower Hamlets illustrate this dynamic, with sale prices now c.7-10% below their peaks. Demand in these locations is highly confidence-driven: when sentiment weakens, buyers retreat to more established areas and become less willing to pay for future potential.



“Across stations on Crossrail, house prices grew by 80% from 2008-23. Growth was not linear, with prices rising sharply from 2008-15 but levelling off thereafter. Additional growth was weighted towards the early stages of construction because buyers wanted to ensure they capitalised on the project.”

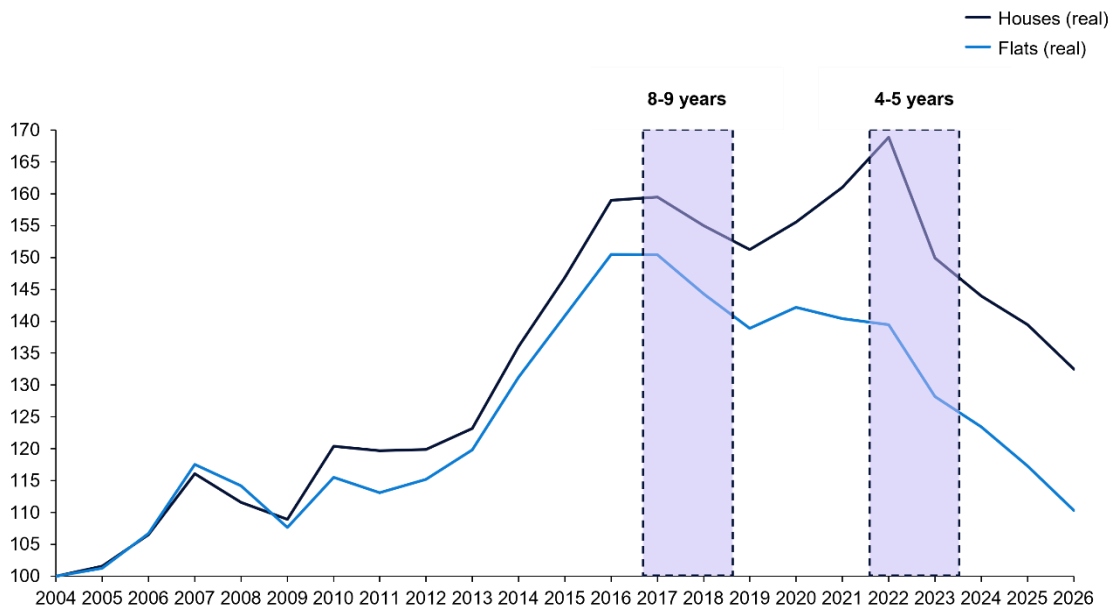
The Domino Effect: Not a Collapse but a Widening Correction, for Now

Higher Mortgage Rates Are Slowing Housing Mobility, With Flats Most Exposed

The full impact of the mortgage-rate reset has not yet passed through. In 2026, c.1.8 million fixed-rate mortgages across the UK are due to expire, including many taken out in 2021, when the Bank of England base rate stood at 0.1%. Higher payments as households roll off cheaper deals will keep pressure on affordability, confidence and budgets. Higher long-term rates also reduce sustainable price-to-rent multiples.

This does not automatically force all homeowners to sell. However, it increases pressure at the point where owners already need to move. That makes flats the first part of the market to feel the strain; they are often owned by first-time buyers, who typically return to the market after four to five years as they look to upsize, compared with eight to nine years for more established homeowners. Many of today's flat sellers therefore purchased near the market peak and are now coming back to market in weaker conditions, crystallising losses and reinforcing the perception of underperformance (see Figure 4). This reflects a classic asset replacement cycle issue.

Figure 4: House Price Index for London, 2004-26 (2004=100)



Source: Housemetric (HM Land Registry and OS data)

Softness is appearing first in flats but is unlikely to remain contained. Flats account for c.60% of London sales but c.90% of loss-making transactions, reflecting greater exposure to affordability pressure, higher ownership costs, weaker investor demand and sentiment. As these sales reset expectations, pressure is likely to spread into adjacent segments.

Borrower Resilience Reduces the Risk of a Disorderly House Price Collapse

This does not mean London is facing a structural housing collapse. Borrower resilience remains an important stabiliser: lending standards are stronger than before the financial crisis, household savings buffers remain a cushion for some owners and widespread repossessions, the clearest trigger for a disorderly price fall, still look unlikely. Supply also remains structurally constrained, and London's underlying need for housing has not gone away.

However, Broader Repricing Is Likely as Affordability Pressures Persist

Persistent macroeconomic pressure, higher debt costs, weak growth, inflation risk and geopolitical uncertainty are already weighing on confidence. At the same time, there is a growing mismatch between the value of housing assets held by older owners and the purchasing power of younger buyers, particularly at the upper end where liquidity depends on a narrower buyer pool.

To date, this part of the market has been relatively insulated, as older owners have often chosen to stay put rather than accept lower prices. This is creating a clearing problem: motivated sellers set visible comparables while discretionary owners hold out. As life events, downsizing and inheritance-related sales force more stock onto the market, expectations will need to adjust.

London is therefore unlikely to face a sudden crash, but the correction is likely to broaden until lower mortgage rates or stronger incomes improve clearing. If mortgage rates reduce sustainably, sale prices should gradually stabilise, especially in buy-to-let-heavy flat markets.

Authors



Gee Lefevre
Global Head of Consumer
and Economics
Gee.Lefevre@teneo.com



Jessica Egan
Director
Jessica.Egan@teneo.com



Sophie Topp
Senior Consultant
Sophie.Topp@teneo.com



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