

SANDHÜTEL | REAL ESTATE WEEKLY

WEEK ENDING 18 OCTOBER 2026

Rents Are Still Rising. Values Are Not Following.

+3.8%

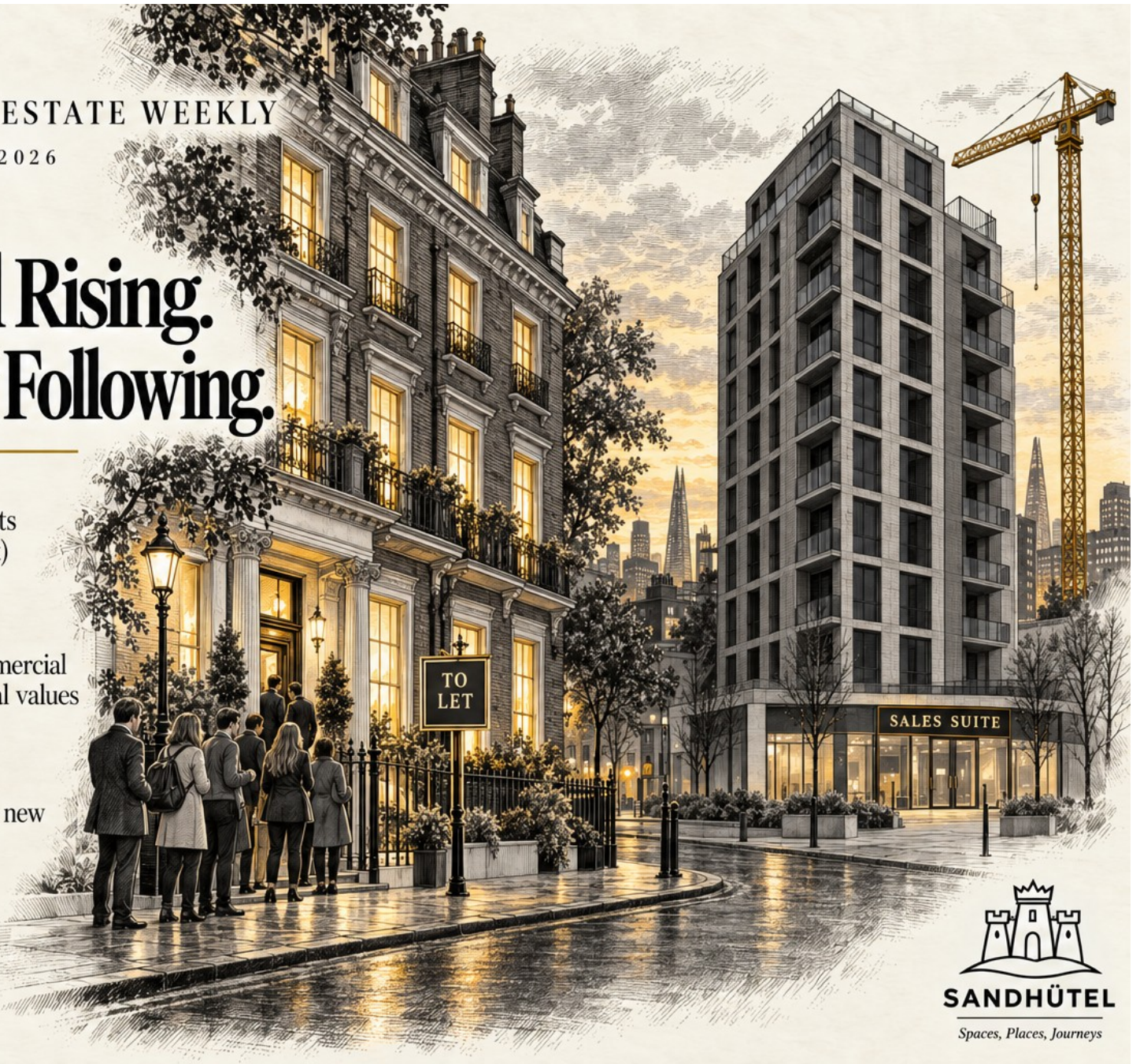
UK private rents
(year to August)

0.9%

Fall in UK commercial
property capital values
(Q3 2026)

1,440

London private new
homes sold
(Q3 2026)



SANDHÜTEL

Spaces, Places, Journeys

Rents Are Still Rising. Values Are Not Following.

THIS WEEK AT A GLANCE

- Rental income will keep rising faster than the values it is meant to support.
 - Refinancing costs, not tenant demand, will decide which landlords hold their returns.
 - London development needs investors back in off-plan before new supply can recover.
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Rent is doing its job. The asset underneath it is not keeping pace. The ONS has UK private rents up 3.8% in the year to August, while the official house price index rose 1.4% in the year to July and Nationwide's annual figure dropped to 0.8% in September. Income is compounding faster than the capital it is meant to support.

For most of the past decade, a rising rent meant a rising value, because cheap debt let buyers capitalise every increase. That link has broken, and much of the market is still pricing as if it had not.

That gap would normally pull money into property. It is not doing so, because the cost of money has moved faster than rents. CBRE's forecasts, published on 5 October, put residential rents up 3.3% this year against house prices up 0.4%, and rents up 16.8% over 2026 to 2030. A forecaster expecting 5 years of rental growth still expects values to stand almost still this year.

The wider economy offers no explanation. GDP grew 0.7% in the 3 months to August, the ONS reported on 15 October, while construction output fell 1.0% and private new housing output fell 3.2% over the same window. The economy is growing. The part of it that turns rent into new homes is shrinking.

The result is a market that pays for income it can hold and discounts income it has to borrow against. Owners with low leverage or fixed debt are keeping the rent rise. Owners refinancing this year are watching it disappear into interest.

RATES AND LENDING

The reason values lag rents sits in the cost of debt. Bank Rate stayed at 3.75% in September, yet the Bank of England's August figures show new mortgages drawn at an effective 4.60% against 4.00% on the existing stock. Every refinance moves a borrower from the cheaper average to the dearer one.

The market price of money is higher still. Knight Frank reported the 5-year SONIA swap closing at 4.76% on 12 October, and Savills, citing Moneyfacts, put average 2-year and 5-year fixed rates at around 6%. For a buy-to-let investor, a 3.8% rise in rent does little against new debt priced 0.6 percentage points above the old.

Lending volumes show borrowers responding. Net mortgage approvals for house purchase eased to 54,900 in August from 55,900, and gross secured lending to £23.6bn from £25.3bn. The market is still lending. It is lending less, and at a price that caps what investors will pay for income.

DEMAND AND TRANSACTION ACTIVITY

Buyers have not left the market. They are negotiating harder. Nationwide recorded a 0.2% monthly fall in September, and Savills reported completed transactions in August 16% below the 2017 to 2019 average.

Supply is not the constraint. TwentyCI data cited by Savills puts new instructions in September 11% above the 2017 to 2019 average. More homes are reaching the market than buyers are absorbing, and prices are finding their level through negotiation rather than headline falls.

The split is regional, and it follows yield. Savills points to resilient, affordable northern markets against weakness in London and the South. Its June local authority figures show South Ayrshire up 11.6% and East Dunbartonshire up 10.3% on the year. Where entry prices are low, rent still covers the cost of debt. Where they are high, it no longer does.

LONDON

London is where income and capital have separated furthest. Knight Frank, citing Molior, reported 1,440 private new homes sold in London in Q3, below the level of Q1 2009. The draft London Plan sets an ambition of about 55,845 homes a year over 2027 to 2036. The 2 figures measure different things, but the problem they point to is the same: schemes cannot fund themselves when units do not sell off-plan.

Rents in the capital are not the problem. Knight Frank has prime outer London rents up 3.0% in the year to September and prime central London up 1.3%, and 8.9 prospective tenants for every new prime outer London letting in the 3 months to September. Tenant demand is there. The capital to build for it is not.

Values are where London is giving ground. Savills' figures for the year to June show Kensington and Chelsea down 9.2% and Westminster down 7.4%, and prime exchanges in Knight Frank's Q3 sample achieved an average 91% of the original asking price. Prime central London's 0.3% rise in the quarter to September, its first in 4 years, shows where buyers see value.

COMMERCIAL PROPERTY

Commercial property is making the same argument at institutional scale. CBRE's latest index still shows Q3 rental values up 0.5% and capital values down 0.9% across all property.

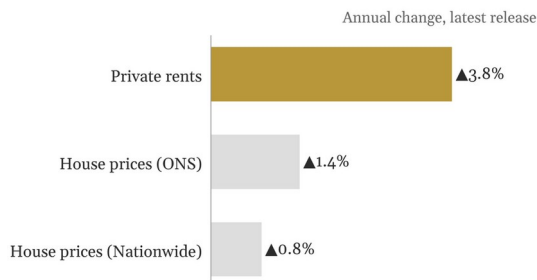
Office occupiers are paying for quality. CBRE's midyear review put Q2 prime rents at £95 psf in the City, up 12%, and £200 psf in Mayfair and St James's, up 18%. Rental growth on that scale has not carried capital values with it, and it will not while debt costs more than the income yields.

REGULATORY AND POLICY DEVELOPMENTS

Policy this week was about intention rather than change. The draft London Plan is an ambition, not a statutory target, and nothing in this quarter's sales data suggests the private market is ready to fund it.

Tax is the larger unknown for owners. Knight Frank discussed on 16 October reported possibilities for a high-value council tax and changes to capital gains tax ahead of the Budget. Neither is policy yet. Both would bear directly on capital values in the boroughs where values have already fallen furthest, and on landlords' net returns.

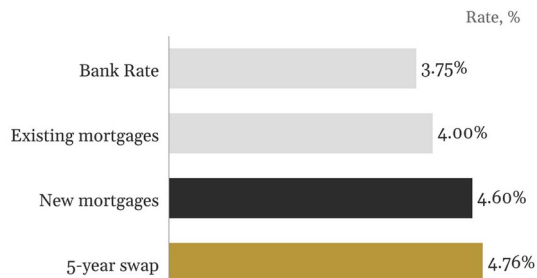
The Bank of England's own split matters too. With 3 MPC members voting for a rise to 4.00% in September, the committee is not signalling cuts, and no landlord should refinance on the assumption of a cut.



RENTS ARE OUTRUNNING PRICES

UK private rents rose 3.8% in the year to August. The official house price index rose 1.4% in the year to July, and Nationwide 0.8% in the year to September.

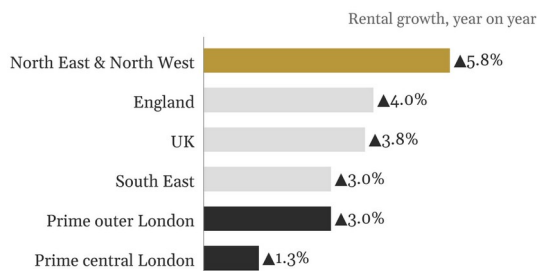
Source: ONS private rents (Aug 2026); ONS/HMLR UK HPI (Jul 2026); Nationwide via Savills (Sep 2026)



NEW DEBT COSTS MORE THAN OLD DEBT

New mortgages were drawn at an effective 4.60% in August against 4.00% on existing loans. The 5-year swap closed at 4.76% on 12 October.

Source: Bank of England (Aug 2026; Sep MPC); 5-year SONIA swap via Knight Frank (12 Oct 2026)



RENTS RISE FASTEST OUTSIDE LONDON

Rents rose 5.8% in the North East and North West in the year to August. Prime central London rents rose 1.3% in the year to September.

Source: ONS private rents (Aug 2026); Knight Frank prime London rents (Sep 2026)

NEW MORTGAGE RATE

▲ **4.60%**

Aug, against 4.00% on existing loans

CAPITAL VALUES

▼ **0.9%**

Q3, CBRE all property, rents up 0.5%

LONDON NEW HOMES SOLD

▼ **1,440**

Q3 private sales, below Q1 2009

PRIVATE NEW HOUSING

▼ **3.2%**

Output, 3 months to Aug, GDP up 0.7%

Sources: Bank of England Money and Credit (Aug 2026); CBRE UK Monthly Index (Q3 2026); Molior via Knight Frank (14 Oct 2026); ONS construction output (Aug 2026).

Rent pays the bills. It no longer sets the price.

I have spent my career on both sides of the funding equation, and property is priced on what its income can borrow, not on the income itself. That is why this week's Rates and London sections tell the same story: 8.9 tenants chase each new prime outer London letting, yet only 1,440 private new homes sold in a quarter, because rising rent cannot carry debt that costs more at every refinance.

Capital will lag rent until the cost of debt moves. An investor who buys on rental growth alone is paying today's price for an income that refinances at tomorrow's rate.

Commercial property is telling investors the same thing. Rents are rising across the index while capital values fall, and the buyers completing in prime London are the ones negotiating on debt, not on rent. This is a market that rewards the underwriter, not the optimist.

At Sandhütel, we underwrite income on the debt we can raise now and stress the refinance before the rent review. Where the price already reflects today's money, rising rents are the opportunity. Where a seller is still pricing on last year's money, we let the asking price come to us.

"Rent tells you what a tenant will pay. Debt tells you what the building is worth."

THE WEEK AHEAD

Wednesday 21 October is the key date. The ONS publishes September CPI, against 3.1% in August, alongside its private rents and house prices release, including the August house price index. If rents hold their pace while prices stay close to flat, this week's argument strengthens.

Tuesday 20 October brings the ONS labour market release, a read on the earnings tenants pay rent from. Friday 23 October closes the week with September retail sales. Neither is a property release, but both feed the rate expectations that decide what rental income is worth.



David R. Sandhu

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