

Rents Accelerated Again In August. The Reason Is Who Can't Buy.

THIS WEEK AT A GLANCE

- Renting is turning from a stopgap into the plan.
 - Landlords are regaining leverage exactly as buyers lose it.
 - The squeeze will bite hardest where supply was already thinnest.
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Something can only be called a housing shortage for so long before it becomes an affordability queue, and that is the more accurate description of where the UK market sits this week. The people who cannot buy do not disappear, they rent, and the rental market is now visibly absorbing the pressure the sales market cannot resolve. Official rent inflation rose to 3.8% year on year in August, up from 3.7% in July, and London accelerated harder, from 3.0% to 3.5%.

The mechanism is not subtle. The average 2-year fixed mortgage rate reached 5.84% on 18 September, up from 5.63% the previous week, and the Bank of England held Bank Rate at 3.75% by a vote of 6 to 3, with three members wanting to raise it to 4.00%. Every basis point added to the cost of borrowing extends the list of households who would rather buy than rent but currently cannot make the mortgage work, and every one of those households stays in the rental pool a little longer.

That pool is also shrinking from the supply side. Zoopla recorded new-let rental supply 3% below a year earlier, new rental listings down 6%, and 5.3 enquiries per home, the highest for almost two years. More people competing for fewer homes is a pricing mechanism on its own, before a single mortgage rate moves. This week, both forces are moving together.

RATES AND LENDING

Mortgage pricing did not drift higher this week, it repriced. Moneyfacts' 18 September snapshot put the average 2-year fixed rate at 5.84% and the average 5-year at 5.88%, a full 21 basis points higher on the 2-year than the 5.63% average carried a week earlier. Rightmove's own affordability series, drawing on Podium Solutions data covering 95% of mortgage lending, put the average 2-year fix lower at 5.29%, a gap that is methodological rather than a genuine market split, the two series should not be substituted for one another.

The Bank of England gave the market no relief. The Monetary Policy Committee held Bank Rate at 3.75% on 17 September by 6 votes to 3, with Megan Greene, Catherine

Mann and Huw Pill preferring an immediate rise to 4.00%. The Bank's own September Market Participants Survey, taken from 92 respondents between 2 and 4 September, had the median Bank Rate expectation at 3.75% through December, but the upper quartile already at 4.00%, and the median 10-year gilt yield expectation for the end of 2026 has risen to 5.00% from 4.80% in July.

Knight Frank noted that the 5-year swap rate topped 4.7% on 15 September, its highest since September 2023, and attributed the move more to energy and geopolitical risk than to a clean domestic economic trend. For a borrower, the practical consequence is simple regardless of the cause: the cost of committing to a mortgage today is meaningfully higher than it was two weeks ago, and that cost falls hardest on exactly the buyers deciding whether to purchase or keep renting.

DEMAND AND TRANSACTION ACTIVITY

Activity is not collapsing, it is straining. Rightmove's September asking price index rose 0.7% month on month to £367,440, the first monthly rise since May and above the ten year September average of 0.5%, but stock sits at a 12-year seasonal high and buyer enquiries remain 9% below a year earlier. A market with more sellers than committed buyers is a market where price recovery and price pressure sit side by side.

Those who are transacting are stretching further to do it. First-time buyers made up 52.8% of 2025 mortgage sales, and their median loan-to-value reached 85.6%, the highest since before the 2008 financial crisis. London's first-time buyer loan-to-income ratio rose to 4.0 times income, the highest of any region. Leverage, not lower prices, is bridging the affordability gap for buyers who complete.

Everyone else is doing the alternative. 2025 mortgage sales overall rose 16.2% on 2024 to 717,519, the highest since 2021, which sits awkwardly next to nine straight months of London price declines and a national buyer enquiry count that is still falling. The most consistent explanation across both figures is that the buyers who can stretch their leverage are transacting, and the buyers who cannot are staying in the rental market this week's data shows tightening around them.

LONDON

London is where the ownership and rental story sits in the same postcode. The city's official average price fell 3.3% year on year in July to around £569,000, an eleventh consecutive annual decline, while London rent inflation accelerated to 3.5% from 3.0%, reaching an average of £2,332. The same household priced out of buying in a given borough is often the household competing for the rental stock in that same borough.

Kensington and Chelsea makes the point cleanly. Its average house price fell 14.1% year on year in July while its average private rent rose 2.1% to £3,690 in August. Westminster's price fell 20.7% while its rent was broadly flat, up 0.6%. Twenty one of London's 33 local authorities recorded annual price falls, ranging from Westminster's 20.7% decline to City of London's 17.4% and Tower Hamlets' 14.4%, while Barking and Dagenham rose 5.3% and Kingston 3.3%, a reminder that borough figures are provisional and mix sensitive rather than a single London story.

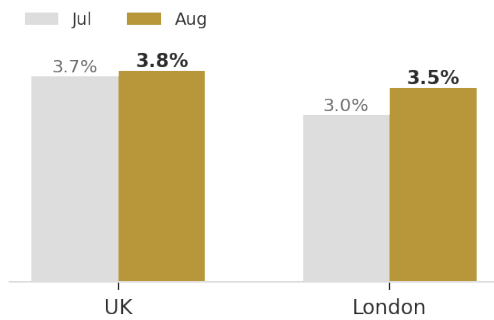
Conversion is the sharper measure of where the pressure sits. Only 42% of Rightmove-listed London homes are currently finding a buyer, against 91% in Scotland, and the average time to secure a buyer in London reached 78 days in August. Set against an accelerating rent line, that is not a London that has stopped attracting demand, it is a London where demand is being redirected into renting rather than buying.

REGULATORY AND POLICY DEVELOPMENTS

Policy is leaning toward delivery, not toward near term relief for renters. The Mayor of London published a draft Housebuilding Offer on 16 September, proposing a City Hall Developer whose first commitment would back a 7,000-home scheme in East London, alongside a £12bn Social and Affordable Homes programme. These are funding commitments and pipeline ambitions, not homes that exist today.

At the London Real Estate Forum on 16 September, Estates Gazette's housing discussion set the draft London Plan, the new National Planning Policy Framework, the Renters' Rights Act and leasehold reform against the practical question of viability, whether reform makes schemes easier to fund and build rather than merely easier to approve. A separate session, framed explicitly as moving London schemes from viability to delivery, made the same distinction from the development side of the market.

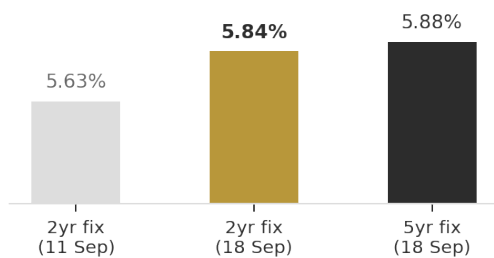
None of this changes the rental market's near term trajectory. A 7,000-home scheme and a multi-year affordable homes programme are additions to supply years from now, while the rental supply data this week, new-let listings down 6% and enquiries at a near two year high, describes a shortage that is happening now. Policy ambition and rental relief are running on different clocks.



RENT IS ACCELERATING, NOT COOLING

UK rent inflation moved from 3.7% to 3.8% year on year in a single month. London moved harder, from 3.0% to 3.5%, the accelerating half of this week's story.

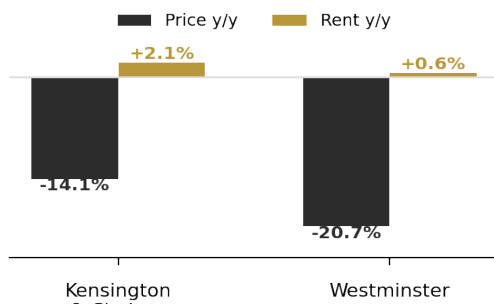
Source: ONS Private Rent and House Prices, UK, September 2026



MORTGAGE PRICING REPRICED IN A WEEK

The average 2-year fix rose from 5.63% to 5.84% in a week. The 5-year fix, at 5.88%, offers no shelter from the move.

Source: Moneyfacts, 18 September 2026



SAME POSTCODE, OPPOSITE DIRECTIONS

Kensington and Chelsea's price fell 14.1% while its rent rose 2.1%. Westminster's price fell 20.7% while its rent held flat.

Source: ONS Housing prices in Kensington and Chelsea / Westminster, 16 September 2026

UK RENT
▲ **3.8%**
Aug, accelerating from 3.7%

LONDON RENT
▲ **3.5%**
Aug, up from 3.0% in Jul

AVG 2YR FIX
▲ **5.84%**
18 Sep, up from 5.63%

LONDON CONVERSION
▼ **42%**
Homes finding a buyer, vs 91% Scotland

Sources: ONS Private Rent and House Prices (Sep 2026); Moneyfacts (18 Sep 2026); Rightmove September House Price Index.

This is not a rental crisis. It is a buying freeze that renters are financing without being asked.

This is not two separate stories, a sales market and a rental market moving independently. It is one market where the same mortgage repricing that pushed the average 2-year fix to 5.84% is also the reason rent inflation is accelerating. Every buyer priced out by that rate stays in the rental pool, and that pool is already shrinking.

London is not a separate case, it is where the Rates And Lending mechanism shows most clearly. A borough can post a double digit price fall and an accelerating rent in the same month, the same household economics driving both. That is one financing constraint expressing itself twice, not two housing markets.

This is a market that rewards patience in buying and discipline in letting, not urgency in either. At Sandhütel, we underwrite to that distinction: a buyer stretching to a first-time buyer market already at 85.6% loan-to-value is not one we encourage into a rate environment this unsettled, and a landlord holding well positioned stock has more pricing power now than at any point this year.

"A falling price and a rising rent are not two markets. They are one buyer, priced out twice."

THE WEEK AHEAD

Three releases in the coming week test how far this month's mortgage repricing has already fed through. Tuesday 22 September brings the ONS's August public sector finances, relevant less for property directly than for what it signals about the fiscal backdrop heading into the Budget and the gilt market's sensitivity to it, given the Bank's own end-2026 gilt yield expectation has already risen to 5.00%.

Wednesday 23 September delivers the S&P Global flash UK PMIs, the first September read on construction-adjacent and services momentum, followed on Thursday 24 September by the ONS's Business Insights and Impact on the UK Economy release covering business activity, staffing and cost pressures. None of the three is a house price or rental print, but together they will show whether the wider economy is absorbing this month's rate repricing or straining under it.



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