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The Cost of Capital Is Still Setting the Terms

THIS WEEK AT A GLANCE

- UK 10-year gilt yields hit 5.15%, their highest since 2008, pushing funding costs higher across the board
- Mortgage rates edged modestly lower but lenders remain cautious and buyer demand stayed subdued
- The Renters' Rights Act took effect on 1 May 2026, with landlord compliance deadlines now live

This week's market delivered two competing signals. GDP grew 0.6% in Q1 and London's structural demand remains intact. Against that, gilt yields reached their highest level since 2008 and buyer sentiment stayed soft. The thread connecting all of it is the same: the cost of capital is still setting the terms, and it is doing so more forcefully than many had anticipated.

Mortgage rates edged marginally lower, with two-year fixes settling in the 5.14% to 5.16% range and five-year fixes around 5.16%. These are incremental moves rather than a turning point. Swap rate volatility means lenders are still pricing risk carefully and borrowers expecting a straight line down in costs are likely to be disappointed. The Bank Rate at 3.75% tells you only part of the story.

Buyer demand reflects this. RICS confirmed enquiries and agreed sales both remained firmly negative in April. Buyers have not disappeared. They are slower, more selective and acutely sensitive to monthly payment levels. Those moving have done their financing homework. Those waiting are hoping for clarity that may not arrive on their preferred schedule. For sellers the message is consistent: realistic pricing transacts and ambitious pricing does not.

London sharpens the picture further. Underlying demand is structurally strong: employment depth, constrained supply, rental pressure and international capital all continue to support the market. But higher funding costs expose weak assumptions quickly in a high ticket environment. The buyers who are active are well capitalised and patient, using softer sentiment to negotiate hard. The numbers have to work across every line: debt cost, yield, compliance, maintenance and exit. Sellers who accept that will transact. Those relying on prestige over fundamentals will wait.

The regulatory dimension adds further complexity. The Renters' Rights Act is live from 1 May. Landlords must provide the statutory information sheet to existing tenants by 31 May, a hard deadline. Section 21 is gone and possession strategy, documentation and tenant communication have all changed materially. On the supply side, the government's London housebuilding package offers a planning route for schemes with at least 20% affordable housing, though whether stalled schemes unlock depends on viability at current build costs. In many cases that arithmetic remains tight.

MARKET COMMENTARY

> ***This is not a market for panic. It is a market for discipline. The winners will be those who understand funding, price realistically, manage risk and act when the numbers work.***

The gilt yield move and subdued buyer demand are not separate stories. They are the same story told from two angles. Rising sovereign borrowing costs flow through into swap rates, mortgage pricing and what buyers can actually afford every month. The RICS data is not signalling a loss of confidence in property. It is signalling a market correctly repricing for a higher cost funding environment. That distinction matters enormously when deciding whether to act now or wait.

The operators who will perform well are those who have already done the hard work: developers with viable, funded schemes; investors who have stress-tested yields at current debt costs; landlords who have built compliance and cash flow discipline into their portfolios. Prospective returns that once assumed meaningful capital growth as a given are being rewritten. Buyers and investors are underwriting on income fundamentals now, not appreciation. That is a healthier basis for decision-making, and those who have already made that adjustment are better placed than those still waiting for the old calculus to return.

At Sandhütel, disciplined acquisition, active management and long term thinking have always been the foundation. The current environment does not challenge that approach. It rewards it. The deals are out there for those prepared to find them, underwrite them properly and execute without hesitation when the numbers work.

THE WEEK AHEAD

The gilt yield is the number to follow this week. If it holds above 5%, fixed mortgage pricing stays under pressure and the affordability picture does not improve regardless of anything else. If it begins to retrace, lenders gain room to move and competitive pricing could return in certain LTV bands sooner than the market expects. That single variable will do more to shape buyer confidence over the coming weeks than any policy announcement.

In London specifically, the focus is on whether motivated vendors in the prime market begin adjusting pricing more decisively. The deals are there. The question is whether sellers have fully accepted the new reality, and my sense is that the most commercially minded of them are close.

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