SANDHÜTEL REAL ESTATE WEEKLY
Week Ending Friday 17 July 2026

BUY-TO-LET FINDS ITS DISCIPLINE WHILE THE WIDER MARKET WAITS

- *Landlords are choosing yield over hope, and lenders are following them there.*
- *Rate relief will not survive contact with the swap market unless borrowers move fast.*
- *London is where capital growth and rental income are finally telling different stories.*

MARKET OPENING

Growth is back, barely, and it is masking a market running at two speeds. Services carried May's 0.1% expansion after April's contraction, while production and construction both went backward, and a market that grows without construction moving is running on existing stock, debt and risk appetite rather than anything new. That is precisely the environment this week's data plays out in: buyers stalling, and landlords moving anyway.

RATE AND LENDING PICTURE

Rate relief has not been evenly earned. Bank Rate held at 3.75% and average fixed rates fell to 5.52% in early July, the sharpest monthly drop since October 2024, but the calm was already ending. The Bank of England's own analysis this week put much of the rise in swap rates down to a risk premium for global uncertainty rather than a genuine shift in the rate path, and lenders passed it straight through anyway. Barclays, NatWest, Nationwide, Coventry Building Society and Virgin Money all repriced upward within days, some by up to 0.35 percentage points.

Landlords had already worked out this was coming. Fixed-rate Buy-To-Let mortgages rose 1.4% year-on-year to 1.47 million while variable-rate loans fell 9.5% to 453,000, a portfolio-wide move into certainty made while the pricing was still available. Borrowers who waited are now paying for the wait.

DEMAND AND TRANSACTION ACTIVITY

Two different credit decisions are being financed in this market at once, and only one of them is built to last. HMRC recorded 98,450 transactions in May, up 17% year-on-year despite a 2% monthly dip, while RICS members report enquiries down 29%, agreed sales down 32% and a house price balance of minus 33%. Lenders have answered by widening access rather than pulling back: Metro Bank now offers eligible first-time buyers up to 100% loan-to-value at 6.99%, and Lloyds, Santander, Skipton, Yorkshire Building Society and Nationwide have all extended high loan-to-value or income-multiple lending. That solves the deposit problem, not the monthly one.

Buy-To-Let sits on the other side of that decision. UK Finance's Q1 dashboard recorded 58,272 new loans worth £10.8bn, both up on the year, with average gross yield at 7.21% and interest cover at 221%. One book is underwritten on hope that a stretched monthly payment holds. The other is underwritten on cash flow that already clears.

LONDON

London has quietly stopped being a capital growth story and become an income one. House prices there fell 2.1% year-on-year, and Knight Frank's Prime Central London sales index held at 4,991.4 in June, while Savills shows prime rental growth holding positive at 1.5% to 2.5% depending on postcode. Average rents on agreement data eased to £2,385 in June from £2,875 a year earlier, even as ONS data shows rents still rising 2.0% annually to £2,294, both readings pointing the same way: growth is cooling from an elevated base, not reversing.

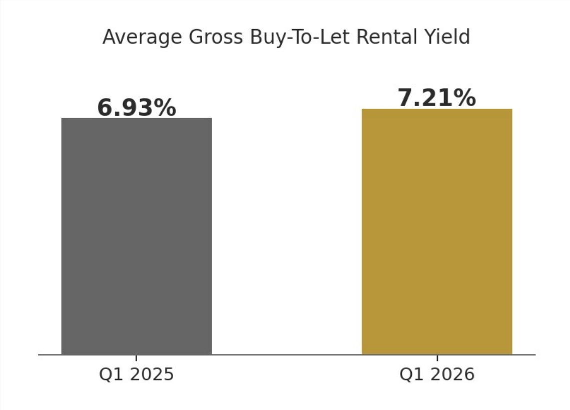
For a landlord, that is the whole argument for London in one line. The return is coming from what the property earns, not from what it might earn next year.

REGULATORY AND POLICY DEVELOPMENT

Every regulatory development this week points the same way: reward the landlords who can prove resilience, and squeeze out the ones who cannot. The Renters' Rights Act continues reshaping tenancy and risk management from its 1 May commencement, and Basel 3.1 lands on 1 January 2027 with lenders already positioning for it. The new draft London Plan, out for consultation this week, targets 558,000 homes to 2036 against the Government's assessed need of 850,000, a gap that only deepens the structural shortage behind the income case for landlords holding good stock.

Layer on the Bank of England's plan to shrink its balance sheet by roughly £50bn by September 2027, and 30-Year gilt yields at 5.87%, and the funding backdrop is tightening even as headline mortgage rates fall. Interest cover at 221% is not a defensive number in that environment. It is the number that decides who is still standing.

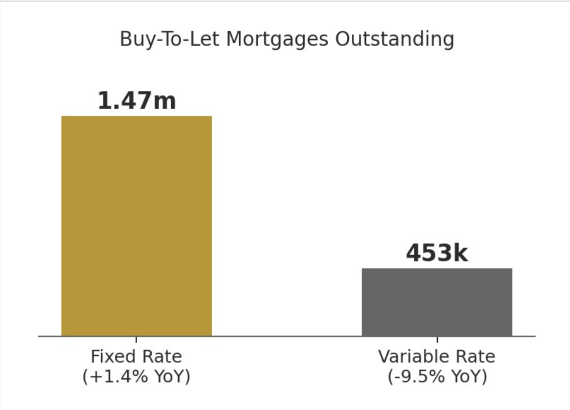
THIS WEEK IN CHARTS



Average Gross Buy-To-Let Rental Yield

Loan count and loan value both grew faster than the yield that underpins them, which means this is not marginal lending chasing a shrinking return. Landlords are being underwritten on stronger fundamentals than they were twelve months ago, and lenders are pricing that improvement into the volumes they are prepared to write.

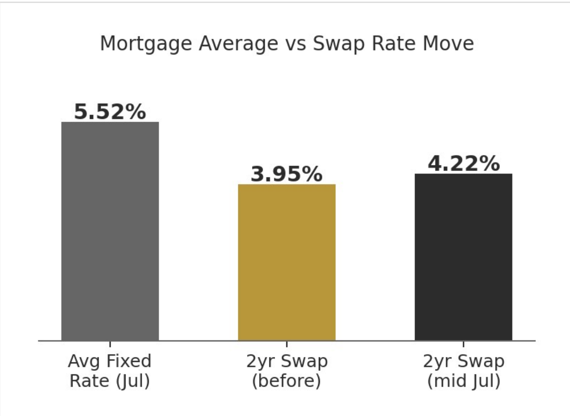
Source: UK Finance Buy-To-Let Lending, Q1 2026 dashboard, published 15 July 2026



Buy-To-Let Mortgages Outstanding

The variable book is shrinking three times faster than the fixed book is growing in percentage terms, which tells you where landlord risk appetite actually sits. This is a portfolio-wide move into rate certainty, made while fixed pricing was still available at the lower end of its recent range.

Source: UK Finance Buy-To-Let Lending, Q1 2026 dashboard, published 15 July 2026



Mortgage Average vs Swap Rate Move

The average rate a borrower saw in the second week of July was already out of date by the third. Swap rates moved first, lenders repriced within days, and the gap between the headline average and the live quote is now the widest it has been since the rate-cutting cycle began. Anyone underwriting affordability off last month's average is underwriting the wrong number.

Source: Moneyfacts Group, 13 July 2026; Financial Times, 17 July 2026

KEY DATA THIS WEEK

BANK RATE	2-YR FIXED RATE	AVG GROSS BTL YIELD	BTL INTEREST COVER	VARIABLE BTL LOANS
3.75% —	**4.96%** ▲	**7.21%** ▲	**221%** ▲	**453k** ▼
Unchanged since 18 June · 30 July next	*Up on last week's average*	*Q1 2026 · UK Finance · from 6.93%*	*Q1 2026 · UK Finance*	*Down 9.5% year-on-year*

DAVID'S VIEW

Bank Rate did not move this week. Mortgage rates did, and that is the story I want people to actually understand, not just read past. A risk premium is not a rate rise, but it costs exactly the same at completion, and lenders proved this week they will pass it straight through the moment global risk ticks up.

Here is what I am watching. RICS members are reporting some of the weakest sentiment in months, agreed sales down 32%, and yet Buy-To-Let lending grew in both volume and value through the first quarter. That is not landlords ignoring a soft market. That is landlords underwriting a market everyone else is only reading headlines about. An average interest cover ratio of 221% does not happen by accident. It happens because the people writing this business are not guessing.

London tells me the same thing from a different angle. Capital values fell 2.1% year-on-year while prime rents kept climbing. If you are still buying in London for the capital growth story, you are solving a problem that stopped existing months ago. The income is the return now, not the uplift, and the sooner that is priced in, the better the decisions get.

My view is straightforward. This market rewards anyone underwriting on cash flow and interest cover, and it punishes anyone still pricing risk off last month's rate average. That is the discipline I have built Sandhütel around, and it is the only posture I am prepared to back capital behind right now.

“An interest cover ratio of 221% is not caution. It is the price of admission to this market.”

THE WEEK AHEAD

Rightmove publishes its July House Price Index on 21 July, the first asking price read since RICS' weak sales expectations. ONS follows on 22 July with June consumer price inflation, producer price inflation and July private rent and house price data, with inflation the one to watch given its direct line into swap rate pressure.

The Bank of England publishes Money and Credit for June on 29 July, and HMRC follows on 31 July with June transactions. Both will show whether this week's resilience, Buy-To-Let lending especially, carried through the early summer.

David R. Sandhu

Founder and Principal at Sandhütel, a London-based firm focused on strategic property investment, management and design.