

Homes Got Cheaper Against Pay. The Monthly Payment Did Not.

THIS WEEK AT A GLANCE

- Earnings are outrunning prices, but the monthly mortgage payment is still rising.
 - Gilt yields, not Bank Rate, now set the price of property money.
 - Prime London has stopped falling. Mainstream London and flats have not.
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On one measure, UK housing is now more affordable than at any point in 11 years. Lloyds put the average house price at 7.3 times earnings, down from 7.6, with first time buyers at 5.9 times from 6.1. Average earnings rose 4.5% over the year to £40,790, while the average home rose 0.5% to £299,131. Read in isolation, that is the affordability story the market has been waiting for.

Buyers, however, do not borrow against a ratio. On the same Lloyds figures, the indicative monthly mortgage payment rose £57 on the year to £1,157. Bank of England data showed the effective rate on newly drawn mortgages climbing to 4.60% in August from 4.45% in July, and the Moneyfacts average two year fix stood at 5.93% on 1 October, with the five year at 5.95%. Homes are cheaper against pay and dearer to finance at the same time, and only one of those shows up on the bank statement.

Activity has followed the monthly, not the multiple. Mortgage approvals for house purchase fell to 54,900 in August from 55,900, well below the six month average of around 60,100, and that was before the sharpest of the autumn repricing reached the data. Nationwide annual price growth halved to 0.8% in September, with prices down 0.2% on the month. The wider economy has held up better than feared, with Q2 growth revised up to 0.5%, yet none of that resilience is reaching housing finance.

RATES AND LENDING

The rate that matters for property this autumn is not the one the Bank sets. The Bank held Bank Rate at 3.75% on 17 September by six votes to three, with the minority preferring 4.00%. Since then, the 10 year gilt yield reached around 5.4% on 3 October, its highest since 2007, and the 30 year yield moved above 6% for the first time since 1998, according to Financial Times reporting. The Bank's Financial Policy Committee recorded on 30 September that rising sovereign yields had tightened global financial conditions. Fixed rate mortgages are priced off swap and gilt markets, which is why a hold has still delivered dearer borrowing.

The August lending data show the squeeze arriving before the full repricing does. Gross secured lending fell to £23.6bn from £25.3bn, below the six month average of £26.5bn. Net mortgage

borrowing edged up to £4.4bn from £4.1bn but stayed under its £5.2bn six month average, and remortgage approvals slipped to 34,000 from 34,600. The rate on the outstanding mortgage stock rose to 4.00% from 3.97%, a sign the cost is now reaching existing borrowers as fixes roll off, and not only new buyers.

The policy signal offers no relief. At its September meeting the Bank noted that short term market rates were priced to peak near 4.9% by the end of 2027, and that the quoted two year fix sat around 95 basis points above its pre conflict level. BNP Paribas Real Estate argues the 28 October Budget will matter more for property through its effect on borrowing costs than through any measure aimed at housing. For buyers, equity remains the cheapest money available. For owners refinancing in 2027, the time to model the new rate is now.

DEMAND AND TRANSACTION ACTIVITY

Completions are still drifting lower. HMRC recorded 95,220 seasonally adjusted residential transactions in August, down 1% on the month and 2% on the year. Completions typically follow the agreed sale by two to four months, so these figures capture the summer, not the September funding shock. Zoopla's forward reading is weaker: sales agreed in the four weeks to 20 September were 9% below a year earlier, while homes for sale were up 5%. More supply meeting fewer committed buyers is how prices stall, and Zoopla's 0.8% annual growth to August is consistent with exactly that.

The national average now hides two different markets. Nationwide's Q3 regional figures put Northern Ireland up 5.9% on the year, the North West up 3.9%, and Scotland and the North region each up 3.3%. Southern England as a whole fell 0.1%, against growth of 1.6% across Northern England. Zoopla shows the same split at city level, with Liverpool up 4.3%, Newcastle 2.7% and Glasgow 2.6%. Lower ticket markets are absorbing higher rates. Higher ticket markets are where each extra point of mortgage cost does the most damage.

Property type is now as decisive as postcode. Zoopla has flats down 1.3% on the year while semi detached houses rose 1.7%, and Nationwide calculates that since the start of 2020 the typical flat has risen 14% against 31% for a semi. The liquidity gap is starker still. Only around 30% of London homes listed between April and June found a buyer within three months, against around 75% in Scotland. In this market a well priced house in the North clears, and a flat in the South waits.

LONDON

Mainstream London is lagging on every measure, even though the measures disagree on how much. Nationwide puts the capital up 0.4% on the year in Q3 at £529,720, the only southern region still recording annual growth. Zoopla has London down 1.0% to August, and the official UK HPI records a 3.3% annual fall to July, the eleventh in a row. The samples and periods differ, so no single number is the London rate. The direction is the same in all three, and so is the liquidity signal: Rightmove's selling success measure sits at 42% for London against 91% for Scotland.

Prime central London has stopped falling, which is different from recovering. Knight Frank recorded the first quarterly price rise in four years, a modest 0.3% in the three months to September. Annual values are still 2.0% lower, the smallest decline in 18 months, with prime outer London down 0.6%. Exchanges across prime London were 2.5% lower over the year, a sharp improvement on the 14% decline recorded in March, and the 121 sales above £10m matched the previous year while total spend rose 14% to £2.4bn. Prices remain 22% below the August 2015 peak. Knight Frank credits more realistic seller pricing and buyers sensing value after a decade of decline. Stabilisation is the right word. Recovery is not, yet.

London lettings are tightening as rental supply thins. Knight Frank recorded prime outer London rents up 3.0% on the year and prime central London up 1.3%, both posting their fastest six month growth since January 2024. New prime outer London listings fell 6.4% over the year, and prime central London now has 5.6 prospective tenants for every new property, the highest in four years. The official London average rent stands at £2,332 a month. For the landlords who stay, and who can carry the higher cost of debt, pricing power is moving back their way.

COMMERCIAL PROPERTY

Occupiers are moving faster than capital. JLL recorded around 1.8m sq ft of Central London office take up in July and August, up 22% on the year, including Jane Street's 465,000 sq ft prelet at One Spitalfields, which JLL describes as the City's largest off plan prelet in more than a decade. Colliers reports that Grade A space made up 76% of London office take up in Q2, against a ten year average of 62%, with vacancy down to 8.3% from 9.4%. CBRE recorded Q3 logistics net absorption at its highest level since mid 2025, with the Midlands accounting for most of the year's take up.

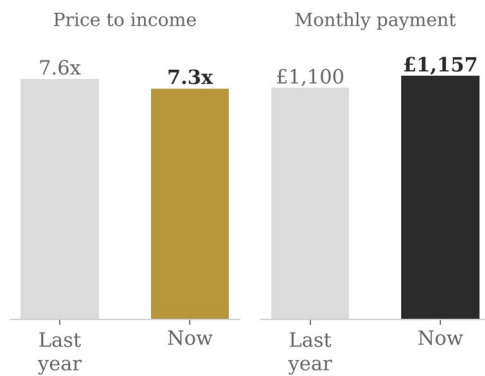
Capital is being far more selective. UK commercial investment reached £28.7bn in the year to August, and Savills estimates European volumes fell 6% in Q3, with the core markets of the UK, Germany and France down 8% so far this year. Savills notes that debt is available, but lenders favour secure income over development and value add risk. Landsec showed what that looks like in practice, selling 123 Victoria Street for £211m and agreeing to buy Metrocentre in Gateshead for £516m within four days. With gilts above 5%, returns will come from the durability of the income, not from yields falling.

REGULATORY AND POLICY DEVELOPMENTS

The government's answer to affordability is aimed at the deposit, not the monthly. Your First Home, announced on 26 September, proposes a 2.5% deposit alongside a 20% government backed equity loan for first time buyers of new build homes in England, with an initial interest free period. Income caps, local price caps, the developer contribution and the timetable will only be set out at the Budget on 28 October. Shares in four of the largest housebuilders rose more than 10% the following Monday, according to the Financial Times. A share price move is not a reservation, and until the caps are known, nobody can underwrite the scheme.

Planning continues to point at small sites. On 29 September MHCLG added accessible chapter by chapter pages to the 2026 National Planning Policy Framework, first published on 17 August. Local plans must identify a five year supply of deliverable sites plus supply for years six to ten, and the framework seeks at least 10% of each housing requirement on sites of one hectare or less, with a further 10% on sites of one to 2.5 hectares. That is a structural opening for smaller developers, if the finance can be made to work.

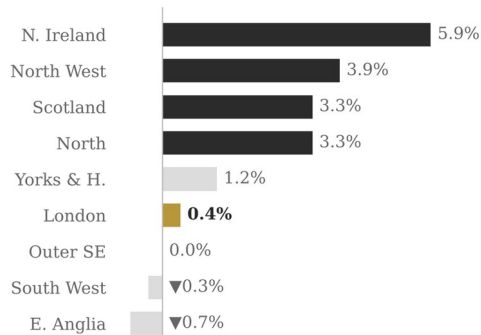
Right now the finance is the obstacle. Glenigan recorded residential construction starts 36% lower than a year earlier in the three months to August. AECOM still forecasts tender prices rising 3.6% in 2026, even in a calmer contractor market, and Turner and Townsend ranks London fifth in the world for average construction cost. Planning can release land. It cannot rescue a scheme where build costs are still rising and the required return has moved up with gilts.



THE MULTIPLE FELL. THE PAYMENT ROSE.

Price to income fell from 7.6 to 7.3 times earnings. The typical monthly mortgage payment rose £57 to £1,157.

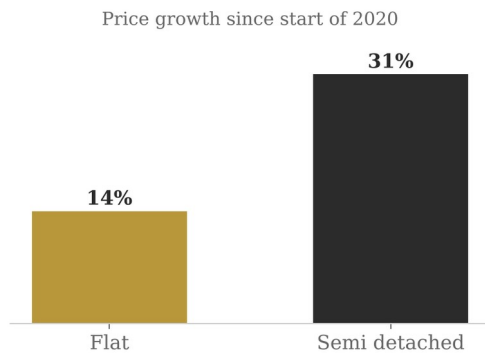
Source: Lloyds Housing Affordability Review, 2 October 2026



THE NORTH IS CARRYING THE AVERAGE

Annual price growth in Q3 runs from 5.9% in Northern Ireland to a 0.7% fall in East Anglia. London sits at 0.4%.

Source: Nationwide House Price Index, Q3 2026



WHAT YOU OWN MATTERS AS MUCH AS WHERE

Since the start of 2020 the typical flat has risen 14%, less than half the 31% gain for a semi detached house.

Source: Nationwide House Price Index, September 2026

NEW MORTGAGE RATE

▲ **4.60%**

Aug, up from 4.45% in July

PURCHASE APPROVALS

▼ **54,900**

Aug, down from 55,900

NATIONWIDE ANNUAL

▼ **0.8%**

Sep, halved from 1.6%

10 YEAR GILT

▲ **5.4%**

3 Oct, highest since 2007

Sources: Bank of England Money and Credit (Aug 2026); Nationwide House Price Index (Sep 2026); Financial Times (3 Oct 2026).

Housing is getting cheaper against earnings and dearer to own. Only the second decides whether a sale happens.

Last week I wrote that rates would not rescue this market, and that price would have to do it. This week sharpens that point. Earnings growth has pulled the price to income ratio to an 11 year low, yet the typical monthly payment still rose £57. In credit, a loan is approved on serviceability, never on the multiple, and buyers are now running that same test on themselves. Until the monthly cost of owning a home comes down, cheaper homes against pay will remain a statistic rather than a reason to buy.

London shows both outcomes. Prime has turned a quarter because sellers accepted a level 22% below the 2015 peak. Mainstream London, and flats above all, have not made that adjustment, and they are the stock most exposed to every move in mortgage pricing. The opportunity sits with buyers who bring equity, and with landlords holding well financed stock into a tightening rental market.

At Sandhütel, we underwrite residential to debt service and commercial to the durability of the income. Neither assumes that falling rates or falling yields will rescue the numbers. The 28 October Budget will matter for property mainly through what it does to gilts, and that is the number we will be watching.

“Nobody pays a multiple. Everybody pays a monthly.”

THE WEEK AHEAD

The week opens on Tuesday 6 October with the September Construction PMI, expected after August's reading of 44.3, a read on whether construction activity is still contracting. Wednesday 7 October at 07:00 brings the Lloyds House Price Index for September, which will show whether its August fall was a blip or, alongside Nationwide's slowdown, the start of a trend.

Thursday 8 October is expected to bring the RICS September Residential Market Survey. A positive buyer demand balance would be the first real challenge to the subdued autumn story, and a renewed deterioration would confirm it. Beyond the week, the dates that matter are ONS private rents on 21 October, the Budget on 28 October and the next MPC decision on 5 November. Watch gilts into the Budget, because lenders will.



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