

UK Housing Market 2026

Under the Burden of Energy, Inflation and Rate risk

October 2026

BY SP2 Analytics

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Housing Market, under the burden of Energy, Inflation and Rate risk

Bank Rate never moved, but the two-year fixed mortgage rate rose 116bp, and every consequence followed from it

- **The affordability shock came from outside housing**
  - The Middle East war that began in February pushed up energy prices and expected inflation, which lifted the two-year sterling swap rate (the cost to a commercial bank of fixing its interest rate for two years, and what fixed mortgages are priced from). Eventually, the two-year fixed mortgage rate rose 116bp, from 3.97% in February 2026 to 5.13% in September 2026, while Bank Rate, the Bank of England's own rate, held at 3.75%. This impacted affordability, as housing sector borrowing became more expensive.
  - Since the Middle East war, the same monthly payment buys less; for example, the same monthly payment supported £250,000 loan in February 2026, while now it supports a £222,000 mortgage in September 2026, a ~11% effective fall in their home purchase budget. That impacted demand, as fewer buyers could borrow enough.

- **Activity fell, and builders with it**
  - With fewer buyers able to borrow, approvals fell ~16% from 65,000 in April 2026 to 54,900 in August 2026, and transactions ~7.9% from 103,400 in March 2026 to 95,200 in August 2026.
  - Major builders' margins fell. This impacted the supply pipeline, as builders are constructing fewer homes rather than cutting prices.

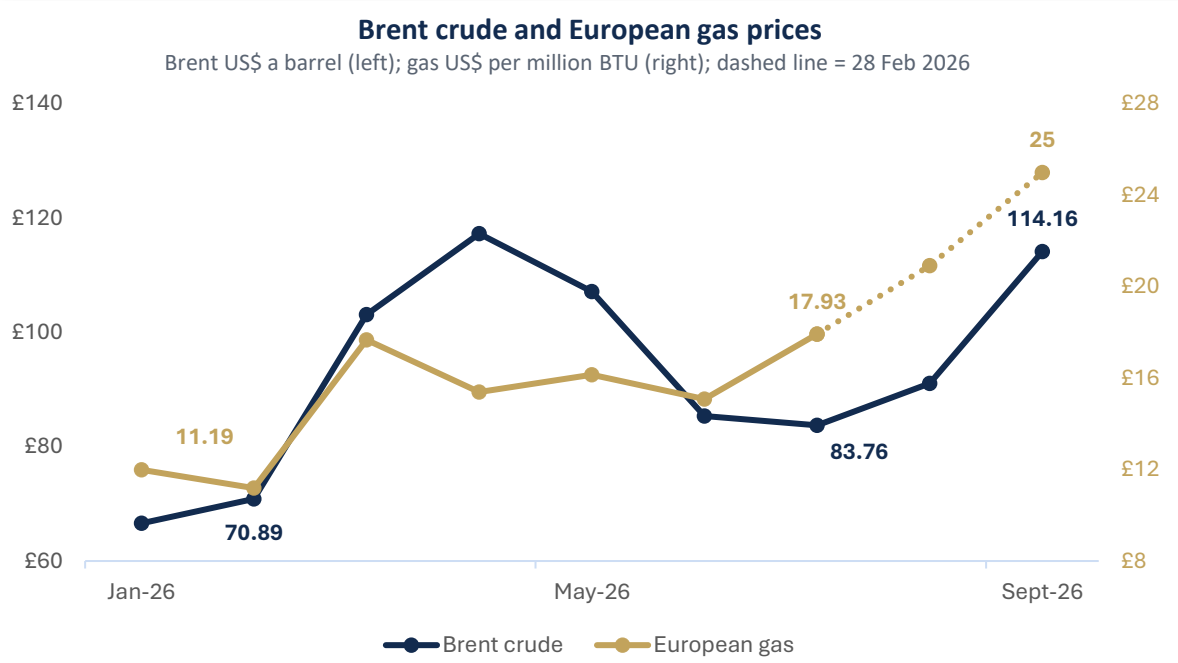
- **The supply of new homes for sale is shrinking**
  - In the year to June 2026 builders finished 122,500 homes but registered only 111,800, a gap of 10,700 more leaving the pipeline than entering it, so completions must fall. With fewer homes for sale, more people stay renting, which keeps pressure on rents.

- **Rents show demand is intact**
  - As renting activity is increasing, rents rose 3.7% in the last 12 months to July 2026, while house prices rose 1.4% in the last 12 months to July 2026. Renting needs no mortgage, so this measures demand without finance.

- **Interestingly, average house prices fell only where loans are biggest**
  - London's average house price fell ~3.3% YoY, from £569,000 in July 2025 to £550,000 in July 2026, while the North East rose ~4.9% YoY , from £159,000 to £167,000, for the same period.
  - The 95bp mortgage rate rise costs about three times more in London than the North East, so prices fall only where borrowing is biggest, not across the UK.

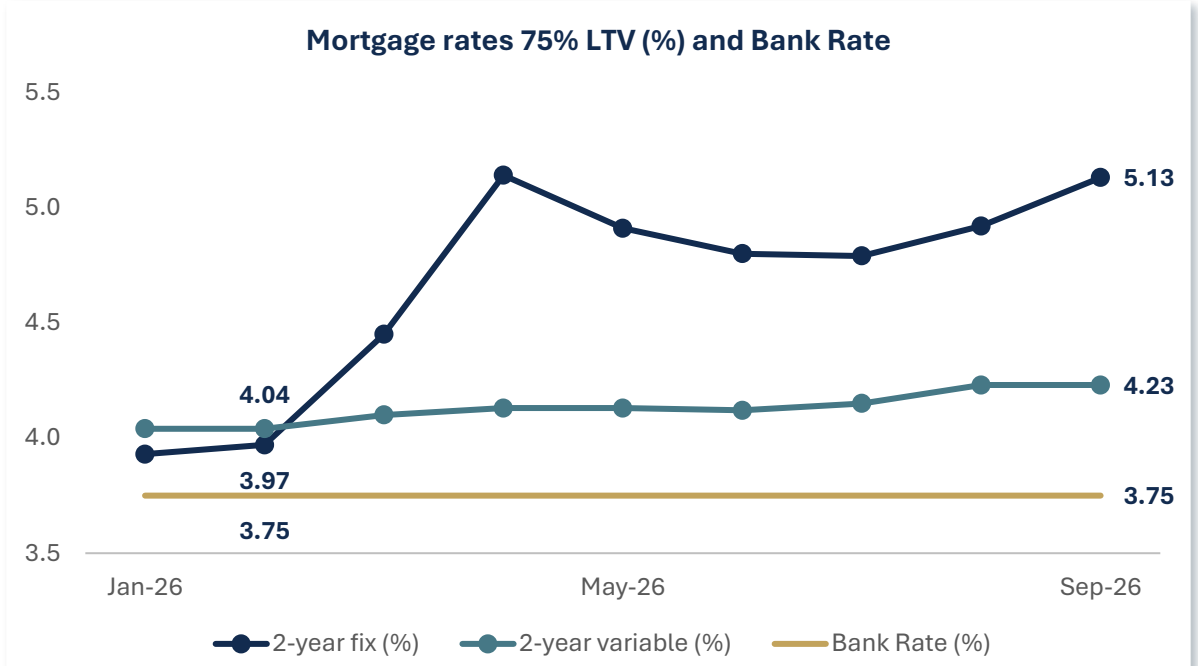
Middle East war raised mortgage rates while the Bank Rate never moved

Since the advent of the Middle East war in February, the two-year fixed mortgage rate rose 116bp, 3.97% to 5.13%, and the variable rate rose 19bp, 4.04% to 4.23%, while the Bank Rate held at 3.75%



Source: FRED: MCOILBRENTEU (Brent, US EIA), PNGASEUUSDM (European gas, IMF)

- The UK is a net importer of oil and gas, so the Middle East war, in a major oil and gas-producing region, reaches household energy bills within months. Both Brent and European gas jumped and have stayed above their pre-war level.
- Higher expected energy costs lift expected inflation, the two-year sterling swap rate follows, and lenders reprice fixed mortgages, which is how a conflict abroad adds burden to their existing mortgage.



Source: Bank of England quoted rates: IUMBV48 (2-year fix, 75% LTV), 2-year variable, Bank Rate

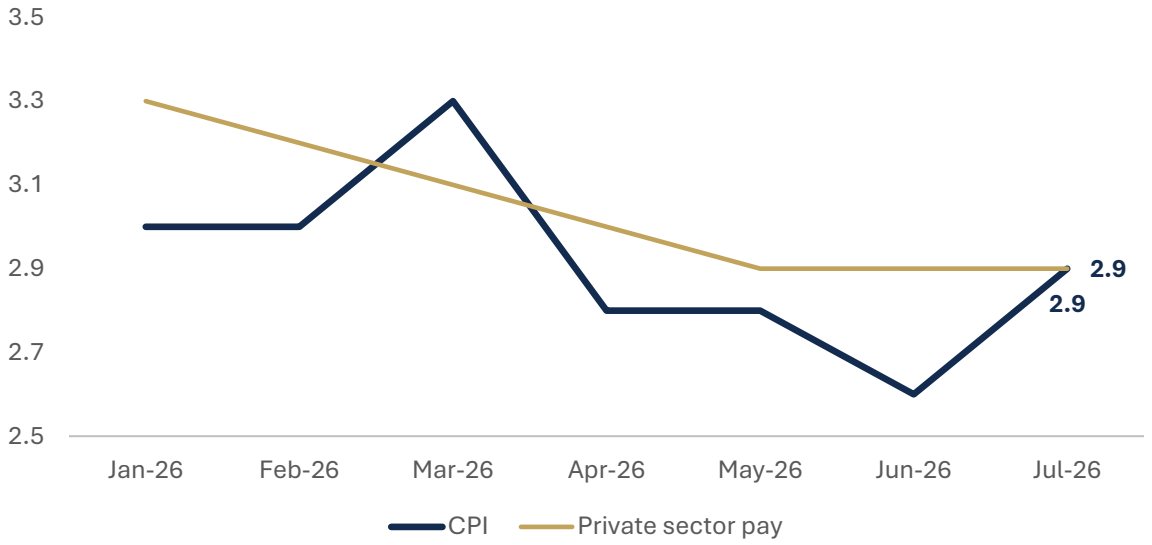
- A fixed mortgage rate is built on the two-year sterling swap rate, which is what markets expect interest rates to average over the next two years. Due to higher expected inflation, lenders raised fixed rates even though Bank Rate never moved. That is why the three lines separate after February 2026.
- Bank Rate has sat at 3.75% throughout, the two-year fixed mortgage rate has climbed 116bp to 5.13%, back to its April 2026 peak, and the variable mortgage rate moved only 19bp. Although the Bank has not tightened, the market repriced around it.

NOTE: August 2026 and September 2026 European gas prices data are our estimates.

Real pay has stalled as household energy bills push prices back up

CPI at 2.9% in July 2026 has caught up with private-sector pay at 2.9% to July 2026, and housing costs are rising fastest

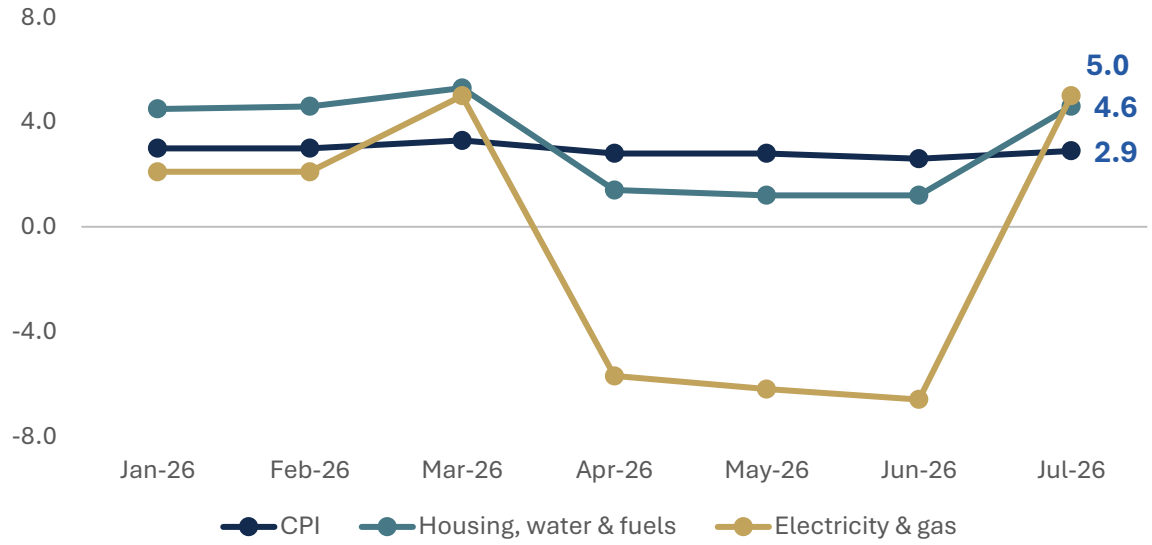
CPI and private sector pay (% y/y)



Source: ONS: D7G7 (CPI, MM23), KAJ4 (private sector regular pay, LMS)

- Pay growth has slowed all year because July 2026 pay settlements (the annual pay rise an employer sets) averaged ~3.5% against 4.0% in July 2025.
- CPI turned back up after the war and has caught up with pay, CPI rose from 2.6% in June 2026 to 2.9% in July 2026, level with private-sector pay at 2.9% in the three months to July 2026.

Housing cost inflation, monthly (% y/y)



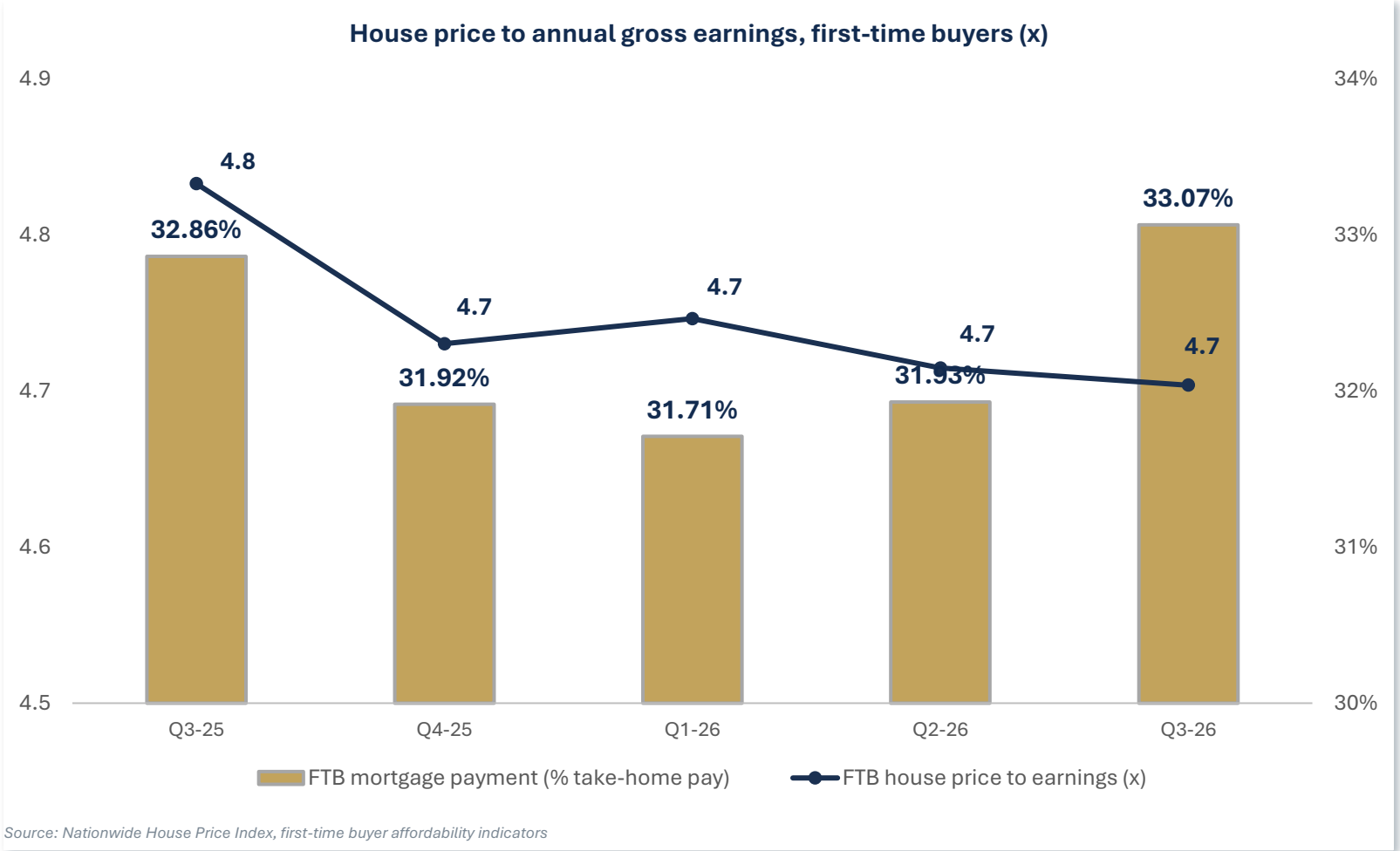
Source: ONS MM23: D7G7 (CPI), D7GB (housing, water and fuels), D7GT (electricity and gas)

- Ofgem published the April 2026 energy price cap on 25 February 2026, three days before the war, and it cut bills by 7% - which is why they were cheaper than a year earlier right through the spring.
- The July 2026 cap, published on 27 May 2026, raised them 13%, so by July 2026 energy was 5.0% dearer than a year ago. That pulls housing costs to 4.6%, against 2.9% for prices overall, and the October 2026 cap, announced on 26 August 2026, makes bills 4% more expensive.

Note: Ofgem resets its price cap four times a year, so household energy bills change in steps rather than gradually.

Homes cost less relative to earnings, yet monthly mortgage payments take more of take-home pay

The same monthly payment now buys about £222,000 mortgage instead of £250,000, a 11% fall in buying power



Source: Nationwide House Price Index, first-time buyer affordability indicators

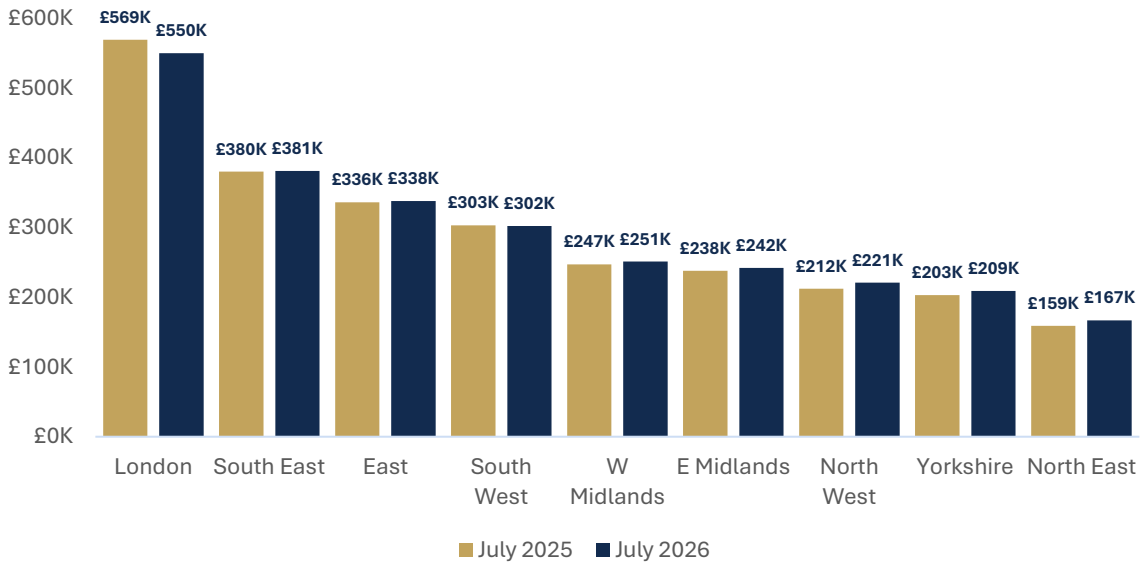
- Measured against earnings, homes have been getting cheaper for three years: a typical first-time buyer home now costs 4.7 times annual gross earnings, though still above the 3.9x long-run average.
- Affordability also depends on mortgage rates, and that started getting worse in Q2 2026 after two years of improving. The monthly payment on a new mortgage took 33.1% of monthly take-home pay in Q3 2026, against a 29.8% long-run average, having bottomed at 31.7% in Q1 2026.
- Same monthly payment now supports a £222,000 loan instead of £250,000, a 11% fall in their home purchase budget. House prices did not fall; what buyers could pay did.

Prices only fell where the mortgages are biggest

London fell 3.3% YoY from £569,000 to £550,000 while the North East rose 4.9% YoY from £159,000 to £167,000; the dearer the region, the weaker the price

What a home costs, and how far it has moved

Average price by region, July 2025 against July 2026

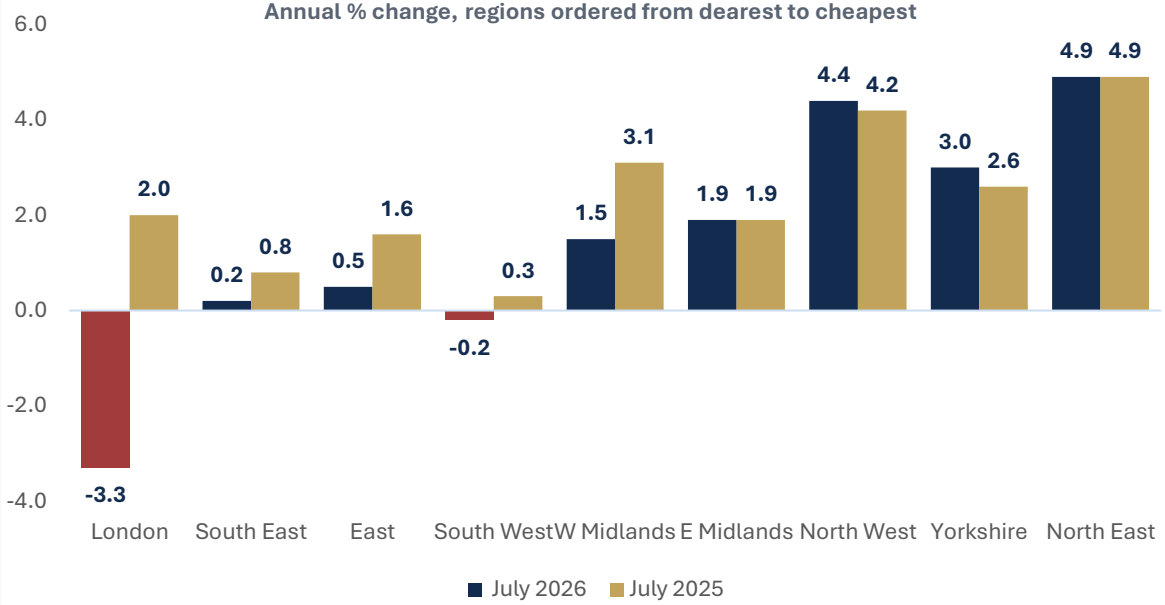


Source: ONS / HM Land Registry UK House Price Index, average price by region

- A London home costs about £550,000 against £167,000 in the North East, more than three times as much, so the same percentage rise in rates translates into roughly three times the extra monthly cost.
- That is why London buyers dropped out first. Over the longer run the gap has narrowed, since July 2025 London is down 3.3% and the North East up 4.9%.

Price change over the past year

Annual % change, regions ordered from dearest to cheapest

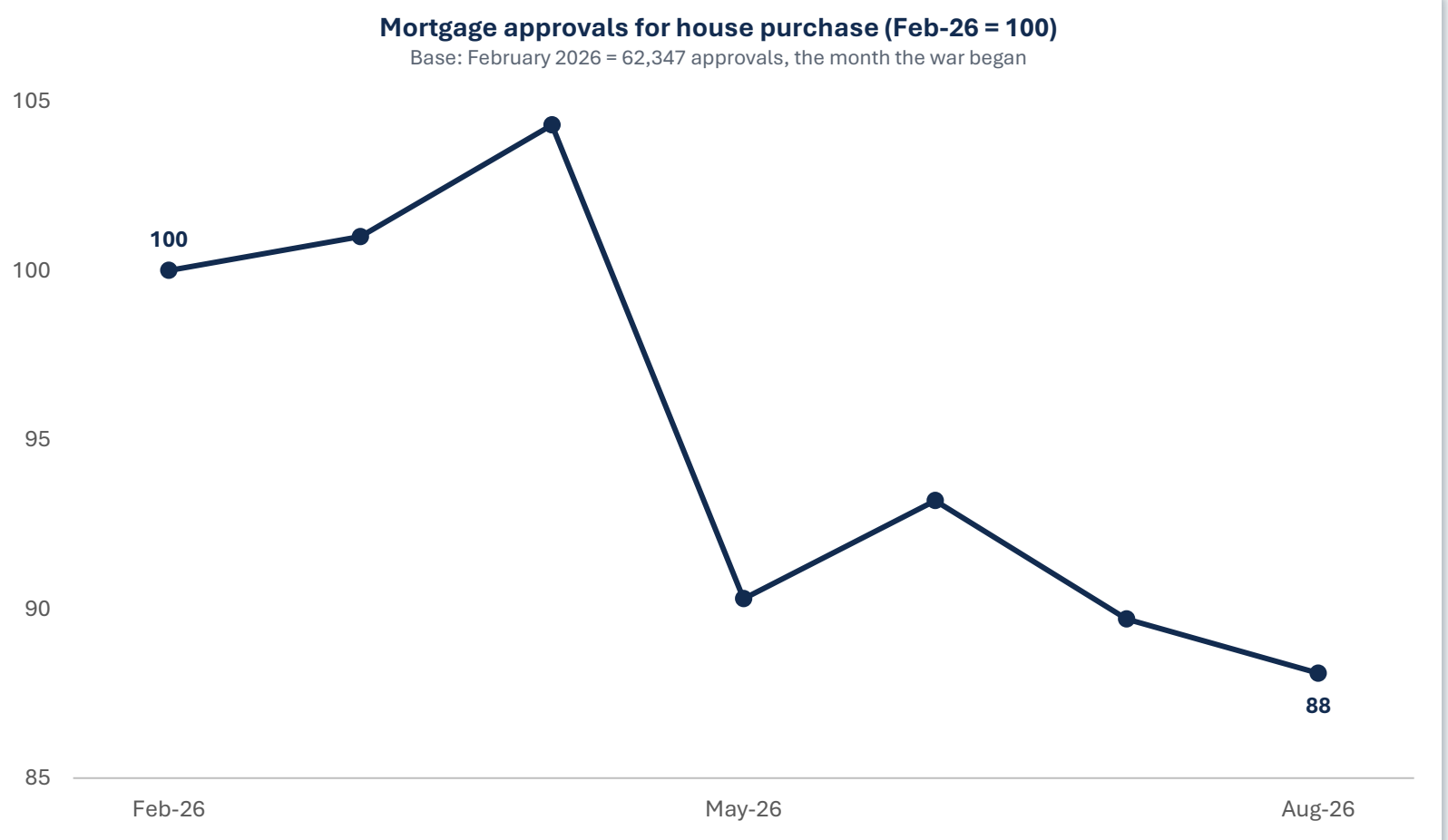


Source: ONS / HM Land Registry UK House Price Index, English regions

- Prices fell where the loans are biggest. London is down 3.3% YoY while the North East is up 4.9%YoY.
- A rate rise adds far more to a £550,000 mortgage than to a £167,000 one, so the most expensive regions lose buyers first. London swung from +2.0% to -3.3% in twelve months, while the North East continued the price rise of +4.9%.

Fewer buyers can borrow enough, so approvals hit a two-year low

Mortgage approvals for house purchase fell 15.5% between April 2026 and August 2026

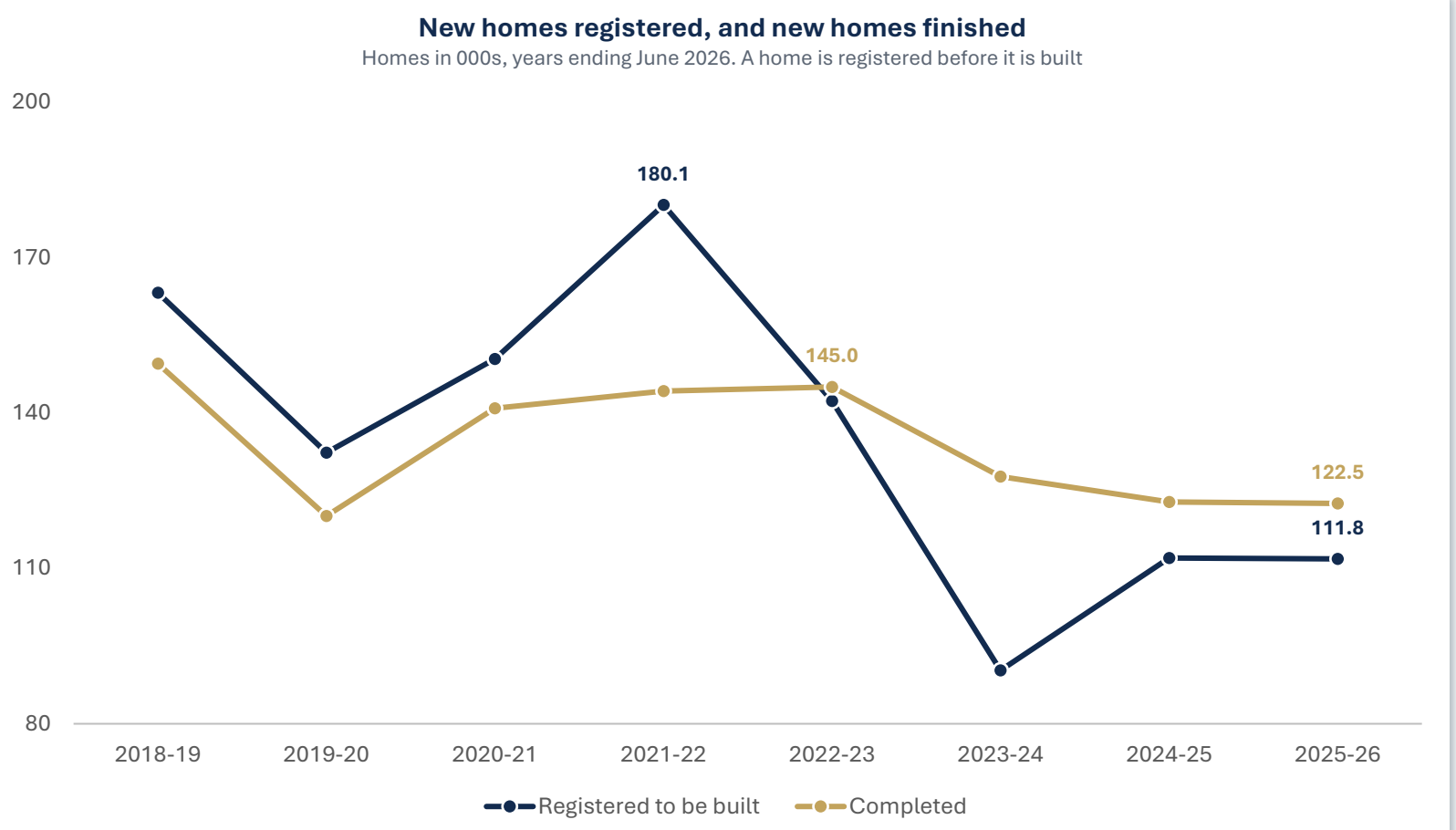


Source: Bank of England: LPMVTVX, approvals for house purchase, seasonally adjusted

- Mortgage approvals for house purchase are where a financing shock shows up first, because the buyer decides at the point of borrowing.
- The two-year fixed mortgage rate rose from 3.97% in February 2026, before the war, to 4.92% in August 2026. Over the same period, monthly mortgage approvals declined 12% to 54,918 in August 2026.
- The lagged impact of higher borrowing costs contributed to this weakness. From May onwards, mortgage approvals increasingly reflected lower applications made after rates had risen, reducing borrowers' affordability.

More homes are being finished than are being registered

Builders are finishing more homes than they are registering, so completions must fall

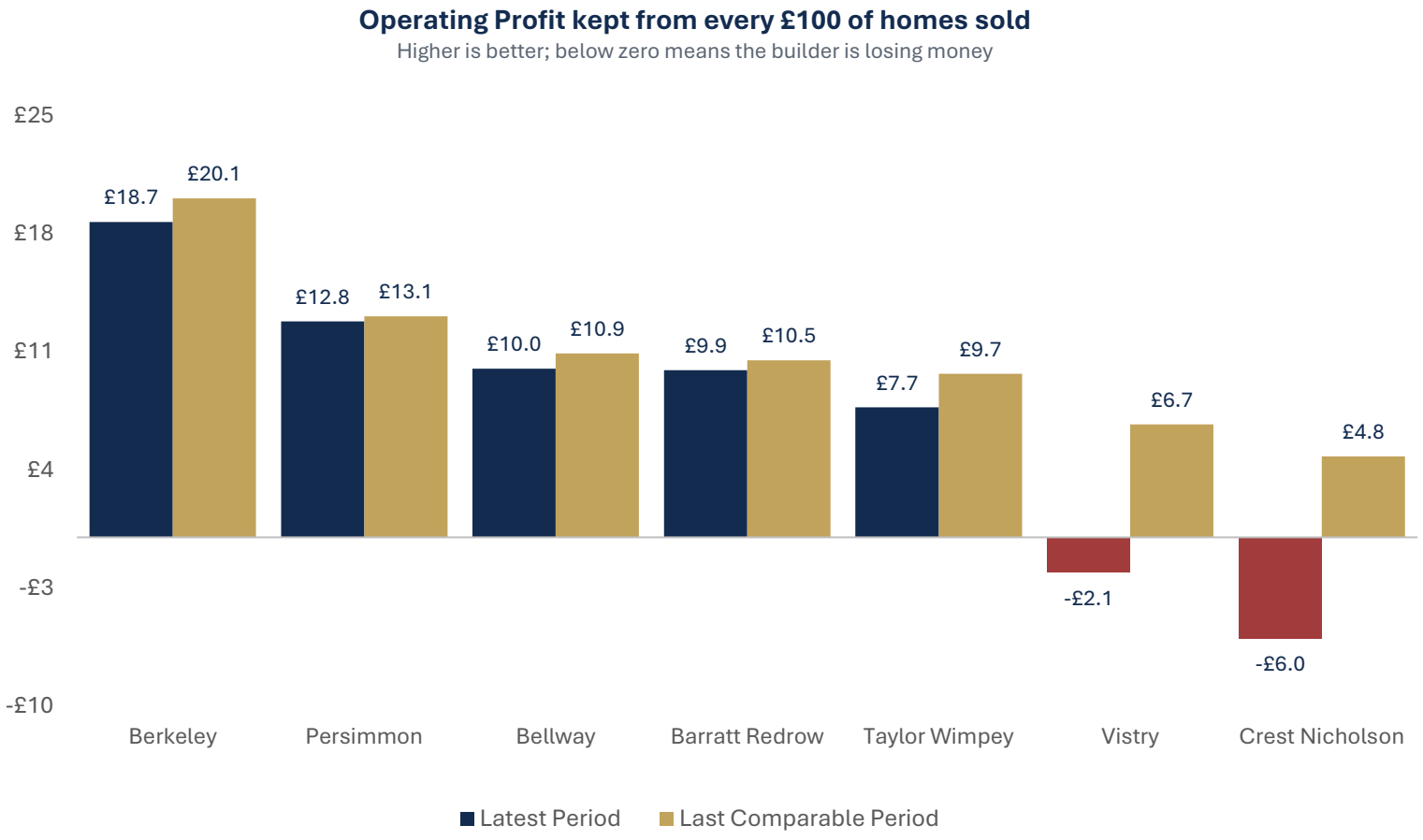


Source: NHBC New Home Statistics Review, Q2 2026, appendix tables 1 and 4

- Registration is a builder telling the warranty provider it intends to build; completion follows about a year later. Registrations are next year's supply.
- In the year to June 2026 builders finished 122,500 homes but registered only 111,800, a gap of 10,700 more leaving the pipeline than entering it.
- Builders start only what they expect to sell, and higher mortgage rates mean fewer buyers can afford a new home.
- Completions therefore fall to meet registrations in 2026-27. Both remain far below the 180,100 registered in the year to June 2022 (peak year).

Operating margins of Builders have declined

Builders operating margins are compressing as weaker orders signal lower future output



Source: Company results announcements, period ends April to July 2026; Bellway from its 11 August trading update

- Builders sell homes today that were priced and costed a year ago, so margin is where the squeeze appears first.
- Every listed builder now keeps less from each £100 of homes sold: Berkeley, the strongest, keeps £18.7, down from £20.1.
- Two of the seven now lose money on each home: Vistry loses £2.1 and Crest Nicholson £6.0 for every £100 sold.
- Vistry's £661m loss includes £475m written off from past takeovers, so not all of it is trading.
- It has become evident that Housebuilders are facing widespread margin pressure, as rising costs and weaker pricing feed through to profitability, with some builders now operating at a loss.

Periods covered: Berkeley 1 May 2025 to 30 Apr 2026; Persimmon 1 Jan 2026 to 30 Jun 2026; Bellway 1 Aug 2025 to 31 Jul 2026 (trading update); Barratt Redrow 30 Jun 2025 to 28 Jun 2026; Taylor Wimpey 1 Jan 2026 to 28 Jun 2026; Vistry 1 Jan 2026 to 30 Jun 2026; Crest Nicholson 1 Nov 2025 to 30 Apr 2026.

What are key Homebuilders saying?

Builders see willing buyers but blocked by affordability and build-cost inflation.

Current Scenario: Buyer interest remains, but uncertainty is delaying decisions, particularly for off-plan homes.

Outlook: Strong London fundamentals remain, but recovery depends on lower rates, greater stability and improved buyer sentiment.

-Berkeley

Current Scenario: Buyer interest and reservations have improved, but stable pricing, incentives and build-cost inflation continue to pressure margins.

Outlook: Higher-margin land should support gradual margin recovery, with improvement expected mainly from late 2027 into 2028.

-Bellway

Current Scenario: Affordability remains a constraint, but demand for well-priced homes is resilient, with first-time-buyer sales up 14%.

Outlook: Strong land and planning support long-term growth, while cost pressures remain a near-term constraint, with savings expected to improve efficiency by 2028.

-Persimmon

Current Scenario: Affordability remains a key constraint, although improving mortgage availability and targeted incentives are supporting buyers.

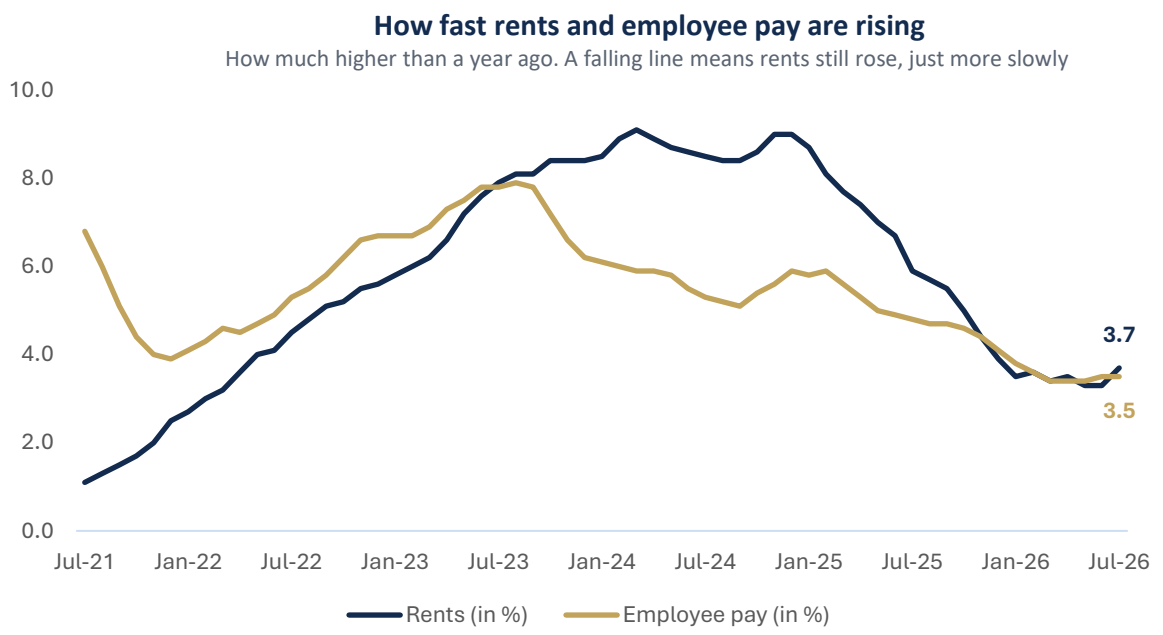
Outlook: Strong housing demand and a large land bank support future growth, but affordability, planning delays and build-cost inflation could keep the recovery gradual.

-Barratt Redrow

Source: Transcripts of respective companies

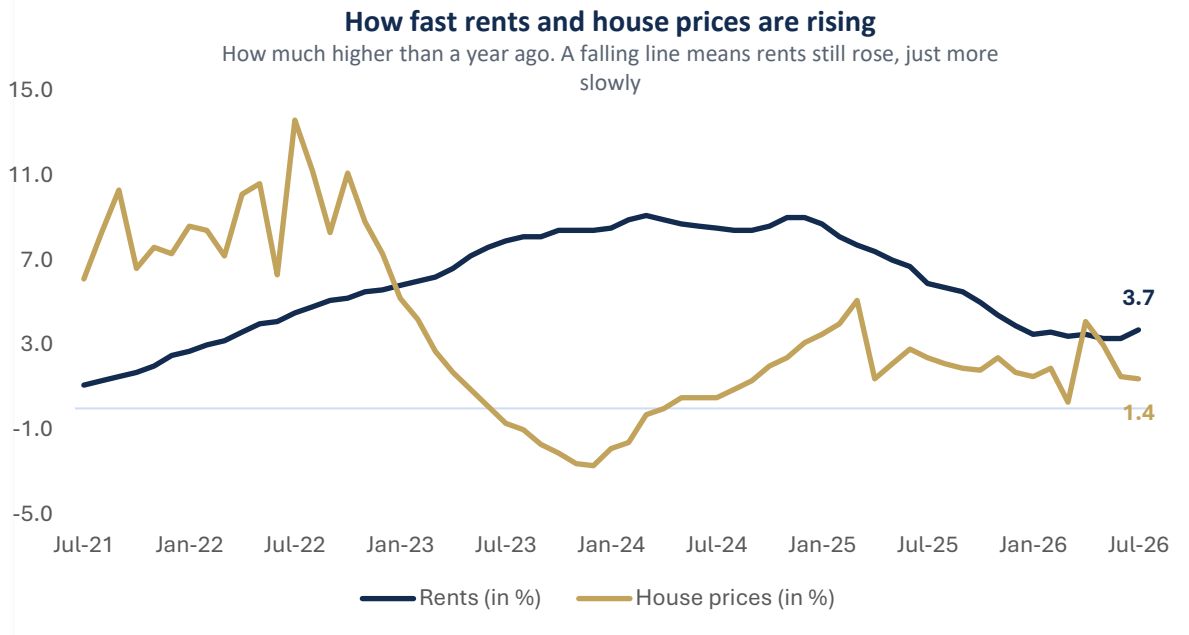
Rent inflation has cooled, but renters have not caught up

Average Rent rose from £1,037 to £1,393 a month and pay from £542 to £705 a week over five years, 34% against 30%, and rents still outpace house prices



Source: ONS: Price Index of Private Rents; Average Weekly Earnings, regular pay

- Rents are still rising faster than pay: 3.7% against 3.5% in the 12 months to July 2026. Buyers who cannot afford a mortgage keep renting, so demand for rented homes stays strong, and rent inflation fell to 3.3% in May 2026, then rose to 3.7% in July 2026.
- The strain is not this year's gap; it is the accumulated one, over five years. Rents rose from £1,037 to £1,393 a month, 34%, while weekly pay rose from £542 to £705, 30%. That gap is banked, which is why renters feel squeezed even as the two rates converge.



Source: ONS: Price Index of Private Rents and UK House Price Index

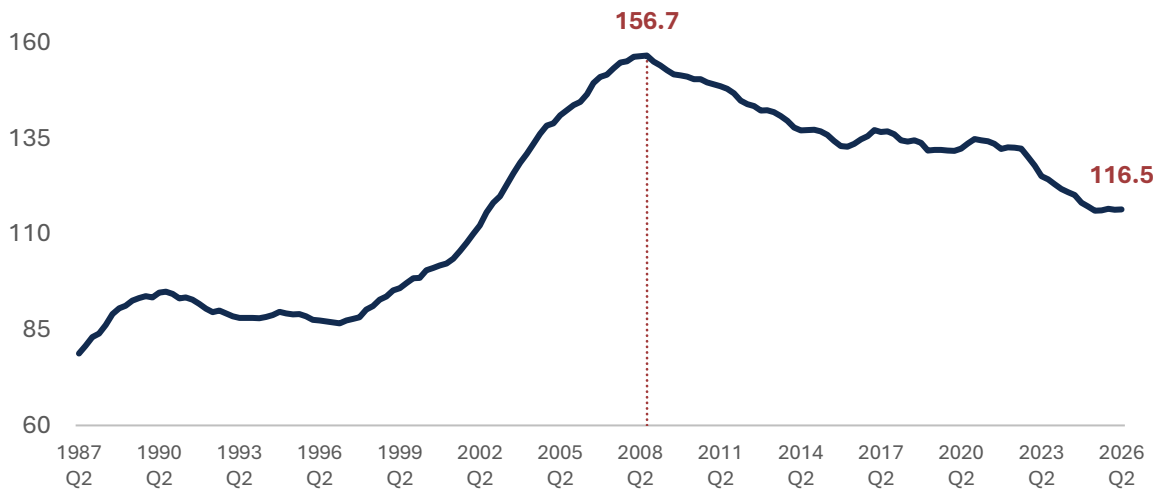
- Rents are rising at 3.7% while house prices rise 1.4%, both in the 12 months to July 2026, and that divergence is informative. Renting needs no mortgage, so rent inflation measures demand for housing stripped of the cost of credit.
- Demand for somewhere to live is intact; what has gone is the ability to finance a purchase. The pattern is regional too, with rents up 5.8% in the North East and North West against 3.0% in the South East.

Analysing catalysts that could turn this freeze into a crash

The housing market pressure is increasing, but currently it is not at an alarming level where homeowners would be forced to sell

The cushion: debt against income

Household debt as a share of annual income, %. Red marks the 2008 peak

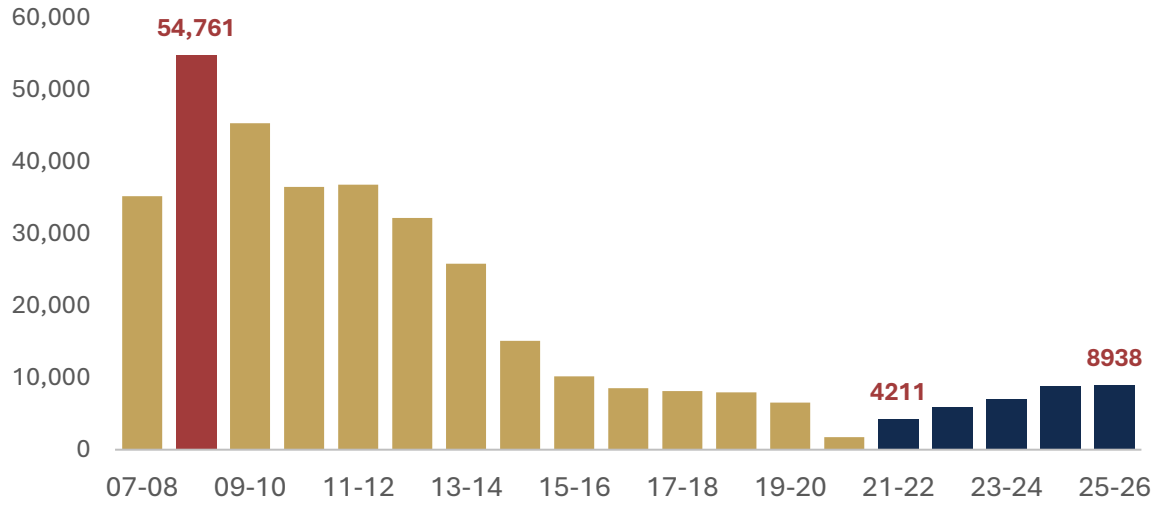


Source: ONS: CVZI, household debt to income, UK Economic Accounts; latest data 2026 Q2

- A crash needs forced sellers, and forced sellers come from debt households cannot carry. Household debt is 116.5% of income in 2026 Q2 against 156.7% at the 2008 peak, so their debts are much smaller relative to their income than they were in 2008.
- Arrears (mortgages where the borrower has fallen behind on payments) have fallen from 1.03% of all mortgage debt in 2024 Q3 to 0.89% in 2026 Q2, seven straight quarters of falls, which says borrowers are coping.

The warning sign: repossessions

Homes taken back by lenders, 12 months to June. A sixth of the 2009 peak



Source: FCA Mortgage Lending and Administration Return (MLAR), summary long-run tables

- A sharp rise in repossessions would turn a squeeze into a crash: repossessions have more than doubled, from 4,211 in 2021-22 to 8,938 in 2025-26.
- The vulnerability is small-deposit lending (high loan-to-value), which took 8.4% of all new mortgage money lent in 2026 Q2 against 7.0% in 2025 Q2. A 5% fall in house prices wipes out a 5% deposit, leaving them owing more than the home is worth.
- Repossession's trigger could be unemployment, because losing a job stops the income that pays the mortgage: the unemployment rate is 4.9% in the three months to June 2026, and the Bank of England projects 5.0% in 2026 Q3 and 5.3% in 2027 Q3.

The market stays frozen until borrowing gets cheaper

Trend should continue: fewer sales, fewer new homes, firm rents, and price falls only where the loans are biggest

Supply tightens from next year

Builders are finishing more homes than they are registering, so next year's supply is already smaller. Completions have to fall to meet the lower level of new starts.

Builders cut output, not prices

Margins have been reduced, and some builders now lose money on each home. A builder losing money builds less rather than discounting, so the shortage outlasts the rate shock.

Price falls stay regional

A rate rise costs far more on an expensive home than on a cheap one, so the dearest regions lose buyers first. Expect weakness where loans are biggest rather than a fall across the country.

A freeze, not a crash

Households owe far less against their income than in 2008, and arrears keep falling, so there are few forced sellers. The risks to watch are rising unemployment and buyers with small deposits.

Comments by BOE Governor

> **Energy prices & inflation:** Energy prices and the conflict in the Gulf have had a serious effect and continue to do so, but so far the feed-through into general inflation has been quite subdued.
>
> **Mortgage rates:** Mortgage rates have gone up by nearly 1% since the end of February, when the conflict began, resulting in a substantial tightening of monetary conditions.

Conclusive Remark

We believe that the housing market is likely to remain weak as higher energy prices keep inflation elevated and mortgage costs high.

A stronger housing recovery will depend on inflation falling and mortgage rates easing.

For now, high borrowing costs are likely to keep buyers cautious, limiting transactions and house-price growth. Hence, a meaningful recovery cannot be expected before 2028.

Source: BOE Governor transcript-Transcript of the Governor's pooled broadcast interview given on 17 September 2026 | Bank of England – the UK's central bank

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