The UK house price growth has all but disappeared. In January it fell to the lowest level in 6 years. February data is likely to echo the same negative news.

UK house prices grew at the slowest annual rate for nearly six years in January, according to the Nationwide report. The lender said price growth "almost ground to a complete halt" with prices up by just 0.1% from a year earlier, and down from a rate of 0.5% in December. For those that may not know this means that this is the slowest pace of growth in six years and, in “real” terms, a fall of more than 2% (depending on which inflation measure is adopted).

This will be blamed on Brexit but, let me be clear, the statistics cannot be put down to a massive drop in sales. In fact, in December, numbers from Halifax reported that there were 102,330 house sales. This is close to the five-year average of 101,515. For mortgage approvals these were close to the five-year average, so no market negative is to be seen from this data.

Simply, the roots of this change go deeper. Even if there were no intention of leaving the EU, this market downturn was due, perhaps overdue. Accordingly, I am not surprised to see the current trajectory for UK house prices. Having run two successful property investments over the past two decades, I could see negative sentiment creeping into the UK property market with a downturn to follow, the negative down turn a result from several changes.

As a well-seasoned property investor, I can quite confidently remark that the fundamental problem lies in the fact that property values had simply risen too much. Recently those renting out property, landlords, have slowly seen any tax benefits eroded, which has reduced the appeal of investing in property and, as a result, practically removed this type of buyer from the market.

It also has to be noted that wealthy investors from all walks of life have suffered due to recent changes. In the case of wealthy foreign buyers, the increases in stamp duty on high-priced properties simply put the brakes on many would-be investors of this type. Furthermore, the annual tax on property owned by companies (typically for overseas buyers) had reached an unacceptable level. The net result of which is reflected in Savill’s recent report, which shows that the sales of properties over £5m had dropped by a third since 2014. This has hit the London market hardest, as I had predicted in previous property reports.

Members may recall RIO Property 1 which started in 1998 and closed in 2003, and RIO Property 2 launched in 2013 closed in October 2018 both of which were a five year fixed term investment, and both importantly resulted in gains which exceeded the benchmark, namely the UK property market. In the final report issued just before RIO closured the product and remitted proceeds to all invested, I strongly stated that the risk in the UK property sector had risen, the consequence of which would see the market come under price pressure.

I would cite the obvious. Investment is about timing. Closing RIO Property Group's second UK property portfolio resulted in a net gain of 69.43% since launch, and the timing of the closure of this product was precise in that it avoided any losses caused by the changing market conditions which I had identified and underlined in my report issued in October 2018.

Many members who had invested in the above property portfolio commented that they were more than pleased with the returns. Some decided to then invest in the Sterling-based ARC Bullion Account and will be pleased to note that Gold has rallied strongly in the past six months, as I said above timing is crucial. Other members who invested in the new Currency Account have likewise seen good returns.

Finally, could UK house values plummet?

Now that prices are falling, momentum tends to feed on itself, investment behavior being similar to that of the stock market. Those looking to buy want to buy at the bottom; I expect prices to remain subdued. The opposite is true when in a rising market, as prices rocket, people panic to get in and buy. Hence, with prices falling I predict that any potential buyers, as always in such a market, will take their time. It being a bear market for now, buyers should beware that prices are likely to keep falling through February and March. My prediction is that it may be nearer summer before this market settles down.

In short, Members take note that there is additional risk seen in the UK property market today.

William Gray
The RIO Club