THE RIO CLUB

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RIO PROPERTY GROUP

RIO Property posted a gain of 1.12% during the third quarter of 2023.

Since its launch, RIO Property has significantly outperformed its benchmark, the average House Price Index (HPI) . Last year, this investment produced a net gain of 8.08%, whilst the benchmark, returned 4.77%. The performance recorded in 2021 was also excellent, with RIO filing a net gain of 10.14% versus 7.08% reported by the HPI. Finally, the statistics for 2020 once again favours RIO Property, which reported a net gain of 9.79% whilst the average House Price Index reported 8.96%.

Of course, it goes without saying that this investment has also served as a shelter from stock market mayhem, having recorded an astonishing fifteen consecutive gaining quarters since its inception it has certainly been rewarding for those invested.

During July/August I had visited all three construction sites and can yet again confirm that all commercial projects remain firmly on track. Our team of dedicated staff have continued to deliver what can only be described as a herculean effort to ensure that projects are completed as planned. In late August, I also met with architects and town planners with a view to securing a further development project, the good news being that we have been granted planning permission for the site. Groundwork's on this new site are expected to commence later this month, with building work starting inspring 2023.

The residential market in the UK remains on a downward trend, and Nationwide reported a drop in average house prices of 5.3% in the year to August. Halifax's data for the same period observed a 4.6% decrease. Residential property transactions also fell by 22% in July 2023 compared to the same month in 2022, according to statistics taken from HMRC. There are now several analysts predicting that house prices will fall further by mid-2024.

That said, the pause in interest rate hikes last month by the Bank of England has offered some relief to the housing market. Even so, according to the Halifax index, UK house prices were 4.7% lower last month than in September 2022, compared to a 4.5% annual fall in August. This was the biggest plunge since August 2009, echoing other measures of the housing market, which have cooled after a jump in interest rates. House prices have had an annual fall of -5.3% nationally, according to Nationwide. Values were most robust in the North West, down -2.2% annually, and weakest in the South West, down -6.3%.

Given the economic turbulence caused first by the Covid-19 pandemic and then by rising inflation and interest rates, it's perhaps not surprising that property values have suffered. Our research points to further price adjustments over the coming months. After all, statistics show that demand is still falling faster than supply. This is verified by the August RICS survey, which suggests price falls and lower activity will continue for at least the next few months. I would also point out that more surveyors reported housing price falls in August than in any time since 2009.

HMRC shows market activity is barely stable and hovering below the pre-pandemic average, with completed transactions at 95,000 in August. These figures have been -14% below their 2017-19 averages for the past three months, while sales agreed are down -11% over the same timeframe. According to the Bank of England, mortgage approvals have also fallen to -32% below their 2017-19 levels in September.

Recent data from UK Finance tells us that in the first six months of the year, the number of mortgages taken out to fund purchases over £1.5m was down -41% on the same period in 2022. Mortgaged buyers have been more cautious and use debt for financial planning purposes, which has become less attractive at today's rates. This trend is likely to limit transaction numbers until at least early next year, and as such, the market will become more and more reliant on cash buyers such as RIO. This will put further down pressure on property values.

The increase in mortgage rates and the true cost

While cash buyers have taken advantage of a less competitive market, those with debt have often been more concerned about managing to afford the increase in mortgage costs. Looking forward to next year; many more will see their existing fixed rate contracts end. As such, there is building concern over the lack of assistance lenders offer to either extend mortgage terms or provide a capital repayment holiday for the households which now find that their finances are unduly stretched due to the elevated debt costs. Again, this could add further fuel to this markets downside as more property could end up on the market for sale due to affordability issues.

Across the pond the property market is reeling from the negative effects of rate hikes! A rare public admonishment from top business such as the National Association of Realtors and the National Association of Home Builders underscores the dramatic slowdown in the US housing market due in large part to rising interest rates.

In their letter to Fed officials, the housing groups cautioned that a further slowdown in real estate could help tip the US economy into a recession, derailing the central bank's hopes of a soft landing. The letter urged the Fed to take steps to ensure that this sector does not precipitate the hard landing the Fed has tried so hard to avoid.

Mortgage rates have already reached their highest level in more than two decades. Sky-high mortgage rates have dramatically slowed the US property market, since homebuyers have balked at stiff borrowing costs and home sellers have opted to stay on mortgages that lock them into relatively low rates.

Mortgage applications have fallen to their lowest level since 1996, the Mortgage Brokers Association reported earlier this month.

Sales of previously owned homes, meanwhile, have plummeted more than 15% compared to a year ago, the National Association of Realtors found in August.

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