

10 October 2009

Base Rate Held at 0.5% but Property Investors Predict Base Rate of 1.2% by Q3 2010

As widely expected, the Bank of England's Monetary Policy Committee (MPC) elected to hold the base rate at its current level of 0.5% during October, but property investors are preparing themselves for a rise.

Neil Young, CEO of Young Group, commented; "Today's announcement comes as no surprise. Base rate is unlikely to change until the Bank of England's Quantitative Easing policy has ceased and, as expected, the Monetary Policy Committee has delayed making any decision regarding changes to its Quantitative Easing programme until after next month's quarterly inflation report."

However, residential property investors are mindful that rates will not remain at the current historic low forever. Results from Young Group's latest Young Index investor sentiment survey show that residential property investors expect the base rate to rise over the coming year to stand at just over 1% by Q3 2010.

Neil Young continues; "Our Young Index results show that investors expect to see an upward movement in base rate from the current historic low of 0.5%, but that the uplift will be gradual, as you would perhaps expect when emerging from an economic downturn."

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Young Index: Headline Results for Q3 2009

- 98% of investors intend to hold their residential property investments for the next 12 months. 44% intend to hold their assets for at least 10 years (up from 41% in Q2 2009) and 27% of private residential property investors intend to retain their property investments for the next 20 years or more (up from 25% last quarter).
- On average, residential property investors now intend to hold their investment assets for the next 12 years, two years more than this time last year.
- 53% of investors are considering purchasing additional residential property assets within London during the next 12 months, compared to 26% who are looking at opportunities in the UK outside of the capital.
- The outlook for London property prices is stronger than for the rest of the UK. 77% of investors believe that London prices will be at current levels or higher by this time next year (up from a low of 36% in Q4 2008).
- The expectation for the pace of property price recovery is conservative. Landlords forecast an average property price rise of 0.73% for London property – and a fall of 1.62% for UK property outside the capital.
- 51% expect UK property prices outside of the capital to be at current levels or higher within 12 months; the first time since the start of the credit crunch that the majority of respondents point to a UK-wide positive price sentiment.

- 22% of respondents expect the Bank of England base rate to be at the current all time low of 0.5% in 12 months time and 98% believe that it will remain below 2.0%, well below the long term average of 5.0%. According to latest Young Index results, the average 12 month base rate outlook is 1.2%.
- 57% of respondents cite a lack of lending in the mortgage market as the principal barrier to investment property acquisitions.