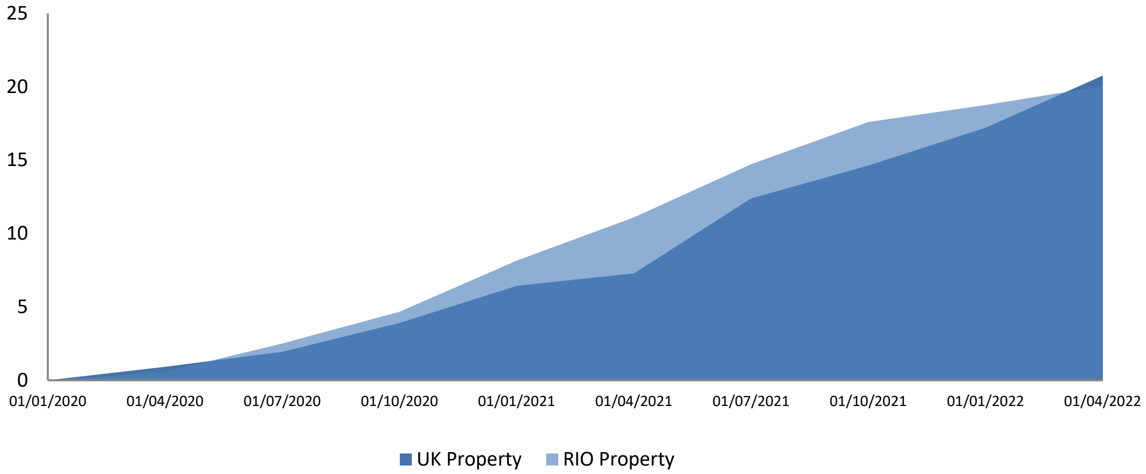
RIO Property Group closed the first quarter of 2022 with a gain of 1.09%. Since launch this investment has remained on target and has posted net returns to date of 20.05%. This is yet another investment which has outperformed, recording eight consecutive gaining quarters, much to the satisfaction of the members who are invested.



During December I visited two of our four projects and am happy to report that these two are now firmly back on target. This despite December's freak storm damage, lockdowns, material shortages and delivery issues; all of which slowed works on site. That said, our illustrious team has continued to deliver what can only be described as a considerable effort to overcome these issues and ensure that projects remain on schedule.

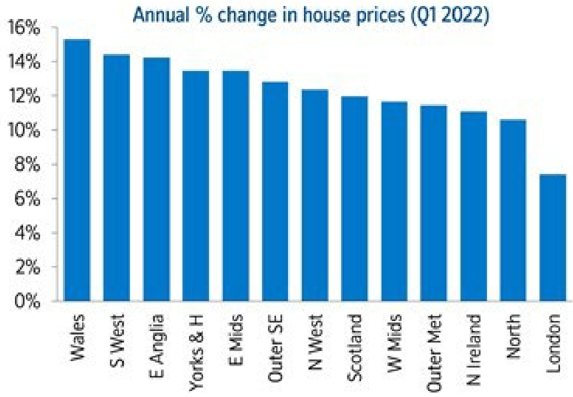
While rising inflation is currently grabbing the headlines the direct effect on property pricing could be minimal as property values have a much stronger link with economic growth.

<u>The UK Property Market</u>

House prices have continued to rise on the back of a continued supply-demand imbalance, despite macro-economic headwinds. Interestingly, the price growth gap between London and the rest of the UK is beginning to close.

The increase in the cost of living has not yet filtered through to the property market and, as such, the annual house price growth hit +14.3% in March. This was the strongest pace of increase since November 2004 according to recent statistics. This growth follows three successive interest rate rises and a firm squeeze on household finances. The reason for this; simply put, it reflects a continued imbalance between the supply and the demand. To underline this, recent surveys indicate that the total amount of stock advertised for sale was 42% below the five-year average in February. Things are changing recently there's been improvement in the levels of new property coming to the market as such the supply demand issue may begin to ease. At the same time, data from the Bank of England shows that on a seasonally-adjusted basis the number of mortgage approvals in February were 8% above normal pre-pandemic levels (but they are 18% less than a year ago and 4% below January).

Average UK house values are now over 20% higher than before the pandemic struck in early 2020. Wales has been the strongest performing region with house prices up 15.3% year-on-year. Northern Ireland experienced some slowing in annual price growth to 11.1%. Meanwhile, Scotland posted a 12% year-on-year rise in house prices, this the strongest rate of growth since the third quarter of 2007. London was again the weakest performer in the UK. Detached properties have seen the strongest price growth through the pandemic.



Looking forward, I forecast that the housing market is likely to slow in the quarters ahead. The slowdown driven by the squeeze on household incomes which is almost certain to intensify this year, and with inflation running hot it's certain to rise further. I am one of the few to predict that across the pond in the USA it's likely to reach 10% in the quarters ahead, this scenario is most likely should the global energy price remain at recent highs.

In the UK inflation is also a pressing issue, and should the labour market conditions remain strong, then the Bank of England will be tested; they will likely raise interest rates. Should this be the case then it will soon feed through to mortgage rates making borrowing more expensive, which in turn will likely have a negative affect the demand for houses, and slow the market. The unemployment rate has continued to trend down in recent months (to 3.9% in the three months to January) from already low levels. Wage growth has accelerated, though it is running below inflation.

A closer look shows that activity is strongest at the top end of the market, of course as those active in this end are more insulated against the above pressures. Agreed sales over £1m remain more than double pre-pandemic norms. For the mainstream market, it's just the supply-demand imbalance which suggests that house prices are like to rise further but any further rise is likely to be short term. Clearly the macro-economic headwinds increasingly point to a marked slowdown in rates of price growth in the second half of 2022. The property market in the UK is peaking and will soon stabilize, as more properties come on the market and the shortages in the supply demand balances out this market will slow, before the above takes its toll later in the year and pushes prices down favoring the purchaser.

Region	Average Price (Q1 2022)
Wales	£201,502
South West	£300,936
East Anglia	£277,332
Yorks& the Humber	£199,235
East Midlands	£227,275
Outer S East	£337,094
North West	£204,511
Scotland	£178,289
West Midlands	£233,136
Outer Met	£422,428
N Ireland	£171,095
North	£153,029
London	£518,333
UK	£260,771

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