THE RIO CLUB 04 August 2021

RIO PROPERTY GROUP

UK Residential Property Market Update

Firstly, I highlight the fact that developers are experiencing material and labour shortages. Even so, the new build market has experienced record levels of demand over the last year. Statistics show that new home bookings were up around 23% in the first half of 2021 compared to the number recorded in first half of 2019. The housing market demand has been fueled by those re-prioritizing what their requirements for a home are after lockdowns. This driver was given additional support when the government extended the stamp duty holiday, the net result being strong short-term demand.

Looking forward, we are likely to see demand shift down a gear now that the full stamp duty holiday has ended. That being so, I expect to see the market cool down a little. However, with regional new home reservations in June 5% higher than the monthly average recorded between 2018 and 2019, the slowdown will not to be a dramatic drop-off in the third quarter.

The Construction Sector

The UK's construction sector has grown at the strongest rate in 24 years, with the reopening supporting the UK's ongoing housing boom which has been led by strong activity across the industry. This increased construction is supported by the sharp rise in new home orders but we could see issues arise with delays in delivery times, and raw materials shortages.

Basically, there could soon be real cause for concern as rising costs are evident across this sector. I predict that the construction industries bane will become inflation which is rising now at the highest rate since April 1997. A recent report issued by the Chartered Institute of Procurement & Supply seems to reflect my concerns, the report showed that a staggering 86% of respondents reported paying more for their goods in June. This as the demand for materials continues to surge; statistics show that work in the house building sector increased at the fastest pace since November 2003.

Developers may soon face real issues. The strong demand will challenge the new build market as developers also face issues that affect both those looking for new sites, as well as those completing existing ones. For example, almost 60% of developers surveyed by the Home Builders Federation were concerned about material availability seeing this factor as a major constraint going forward should shortages continue.

The take away

The issues above could easily lead to a slowdown in new sites starting construction, this in turn would likely mean that there will be a reduction in new build stock available for sale over the next year.

In short, RIO's research has uncovered issues on the horizon; three quarters of firms have reported longer lead times from suppliers in June, this fact backed up by recent reports showing June as the worst month for supplier delays since surveys began 24 years ago.

The obvious lack of availability of raw materials has placed obstacles in the path for this market, which faces ongoing difficulties. Add to that the lack of delivery drivers, and logistics difficulties for EU imports which has often left stock undelivered while construction companies wait and costs mount.

Today with construction companies reporting stock shortages and vendors also holding limited stock, the severe delays with shipping and haulage for products sourced from the EU add to the building concern. A closer look shows that cement, concrete, plaster, steel, timber and roof tiles are all in short supply, that being so I predict that we could see more price increases driven by supply demand, the additional cost to the developers will almost certainly be passed on to the customer, until the supply demand is normalized.

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Looking back, this investment has done well against the back drop of what has, to date, been a strong property market, the statistics show that the account has filed 6 consecutive gaining quarters since launch. The constant positive returns were, to a large degree, achieved by entering the market at the right time. In late 2019 I had correctly forecast that the UK property market was set to see a strong upside, and as such RIO launched our third tailored version of a RIO property portfolio. Which has to date recorded a gain of 14.72% making it yet another RIO investment which has done well since its launch in January 2020.

That said, this quarter RIO Property has also begun to experience delays in material delivery, which in turn has led to two of the projects experiencing setbacks. Fortunately, both sites were ahead of schedule and were set to be complete early. Today, due to the recent delays, we are simply now on target for completion with these projects. RIO has had no labour issues directly or indirectly.

Looking forward, RIO Property remains for the most part ideally placed. There may be some short-term material issues from original vendors, but fortunately this issue has been addressed, we have sourced new suppliers whom have all indicated that they can supply, albeit at a 5-7% premium.

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