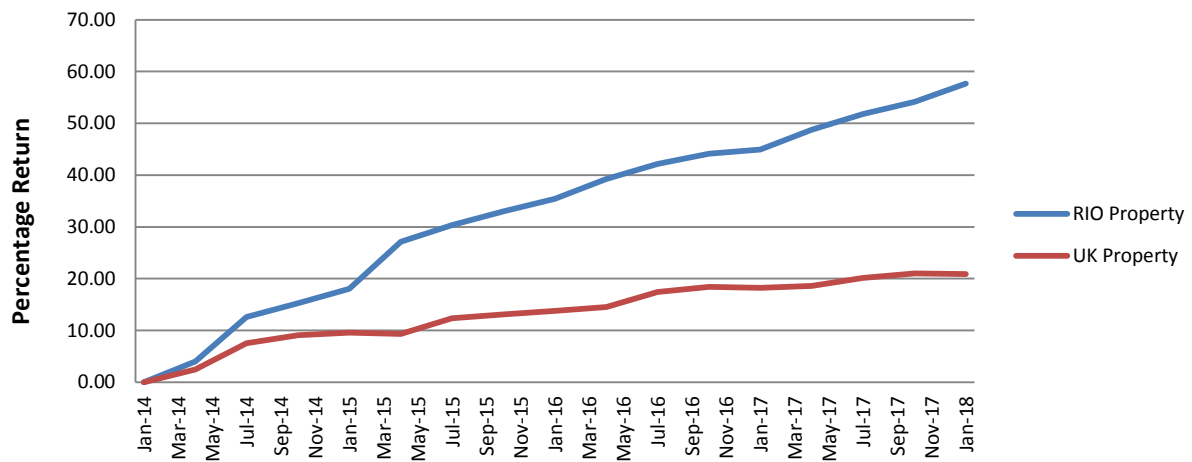




**After four profitable years, we enter the final year.**



RIO Property Group has produced a very attractive set of numbers, filing sixteen consecutive quarterly gains. It is thus another successful product in the RIO Club portfolio especially in terms of the risk reward ratio of 8.82:1, not to mention the massive out performance of its bench mark return over the same period as can be seen in the above graph.

This investment has returned 57.70% in the first four years, the return realized far outperforming the benchmark return, namely the UK average house price, which returned 21.21% over the same period.

This shows that the RIO (Real Investment Opportunity) Club did indeed, as in the name, identify an investment opportunity for its members, having done so then designed and launched a product to take advantage of the predicted upturn in the identified sector namely the UK Property market. The advantage of foresight and experience in this field assisted RIO to deliver a more than palatable return for all those invested over four year period to date.

Looking forward, what next as we enter the final year of the five year fixed term product? First the good news, RIO is in good shape as it moves through the first quarter of this year, so this quarter looks like more of the same. All of this is by design, since my knowledge of the UK property market spans three decades, RIO's previous venture during 1997/8 was also a fixed five year term product, which was received well by the membership and closed in 2003. Much to the delight of those invested the final returns realized by participants were higher than the target return projected.

In short I am confident that RIO Property Group has planned its exit from the residential property sector perfectly, as such it is extremely unlikely to be negatively affected by coming market changes, which are likely to be negative.

Importantly RIO Property Group will have no exposure to the UK residential property by the end of the second quarter this year. The reason being that all RIO residential developments have been completed, with the last capital payment from sales due in May 2018 limiting any perceived down side risk. Even better perhaps is the fact that RIO has only one project remaining, a city centre commercial property scheduled for redevelopment.

## The UK Property market

My prediction is that we could easily see a price squeeze in the UK property market! Those members who didn't invest in RIO Property may find the following comments of interest especially if you own residential property in the UK. For many members their home is their most important financial asset, having worked long and hard to acquire it.

Recent figures confirm that the UK is witnessing mortgage applications falling; in London it has been down to a three year low. With the recent bond market sell-off, triggered by higher inflation rates, this will lead to generating higher mortgage interest rates. This will almost certainly lead to many UK citizens not be able to afford a mortgage.

I am highlighting that the bond market volatility of the last weeks will damage mortgage affordability. Mortgage rates are not just tied to Bank interest rates, but to free floating rates.

In addition, there is the coming BOE interest rate reaction to the high inflation rates, likely leading to interest rate increases which will add a further negative reaction to the property market. As I mentioned in my last report/forecast the Bank of England will almost certainly raise rates in May, if not in March.

Recent data already indicates that the negative impact can be readily seen, not just in the fall in UK mortgage applications, but also in house prices, there have been reports of massive discounts being offered to secure a sale in the UK property market, for example 10% in London. This is an interesting development, since I had forecast this as far back as last year, I had highlighted this fact to many members including Howard, a long time club member, who had been looking at property purchase in London.

I see certain sectors of UK property market as overvalued, by entering what looks set to be an up cycle in rising interest rates, this consequently will put downward pressure on property values. Interest rate hikes will make mortgaging less affordable meaning that there will be less people in the market to buy.

In consideration of the above the prospect of buying a house in the UK, taken from a potential capital gain point of view, is poor and risky in the coming market. Personally, I would hold out to seek at least a 10% discount in any UK property purchase in the current market.

Finally, note that RIO Property Group has deliberately reduced its exposure to zero in the residential sector. It has only one commercial development remaining thus the down side risk is limited. I expect to see the final project completed by August/September this year. This project has potential to deliver a very positive return, which could result in an attractive close to the year.

That said, RIO will retain our commercial rental portfolio as this will benefit from Bank rate rises, the affect of which drives more companies to switch to rental rather than ownership, this in turn fuels the supply and demand which will see rental rates increase in 2019.

William Gray  
The RIO Club