RIO CLUB Newsletter

In This Issue : Spot Light On RIO Property Group Limited

Commercial Property Investments in The UK. Mergers and acquisitions fuel the commercial property buzz, however developing a successful real estate portfolio is not unlike a game of chess. The value of each piece is determined by locations as much as physical attributes, by tailoring your investment and operating strategy to meet market conditions you can greatly increase your ROI's. The following example clearly demonstrates just how RIO Properties enhances the ROI on their Holdings (ROI -- Return on Investment).

RIO Property Group acquires 20 Rubislaw Terrace a four story office block, and prestigious address in the heart of the prime West End business community of Aberdeen the oil capital of Europe.

RIO Property Group Ltd. has put together a parcel of select investment properties, with all the participating properties meeting the stringent criteria demanded to offer maximum investment potential for the company. Even though a particular property meets all the requirements, I am a great believer in making money when you buy, not just when you sell and push hard to buy property below its current market value. To a large degree, investing profitably means structuring deals to yield good positive cash flows and high ROIs. Generally, to beat the market averages, you first need to identify those communities, neighborhoods and properties that are positioned for faster appreciation.

RIO Properties began negotiations to acquire this property in January 1998, with transfer of title finalized in April 1998. Due to the extensive works required, RIO was able to acquire 20 Rubislaw Terrace a free hold property outright for £285,000, which was far below its market value.

This in itself points to opportunity for those who can see beyond the initial headaches of refurbishing and decorating a listed building which dates back to 1894. Therefore, it is a welcome addition to the group's property holdings.

The tenants at 20 Rubislaw Terrace are Aberdeen Asset Management (AAM) PLC who's group has US$ 22.3 billion under management. They are bound by a full conventional repairing & insuring lease, which expires on 31 March 2003.

AAM PLC declared a turnover of £22.3 million with profits of £3.8 million. Furthermore, they recently acquired Prolific, the investment arm of Scottish Provident. Interestingly, this occurred in January 1998, when RIO had already exchanged contracts with Royal Sun Alliance for the purchase of 20 Rubislaw Terrace. The advantage here is the added covenant strength of the tenant as a result of the takeover.

Acquiring the building was just the start. In May 1998 RIO's appointed surveyors were instructed to prepare an Interim Schedule of Delipadations to be served on the tenant as per clause 12 of the lease, the tenant has a two month period to carry out all the repairs, failing which the landlord has the right by law to carry out the work and recover the cost from the tenant.

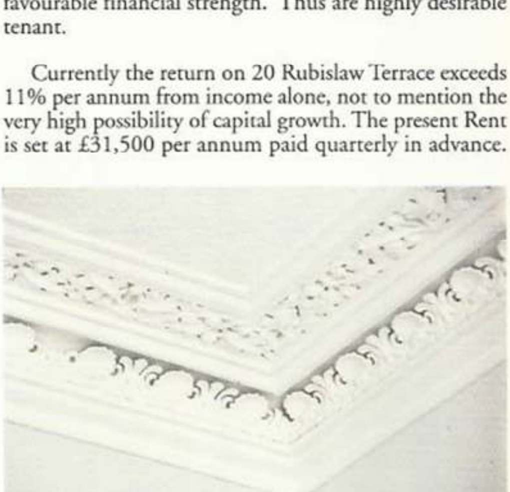
On July 24, Aberdeen Asset Management PLC acknowledged their liabilities and instructed their surveyors to proceed with the work of putting the building back into its prime condition. Being in prime condition and a prime location, there is further scope for an uplift in rent, not to mention the added potential for capital growth **opportunity realized.**

As expected, on September 8, 1998, Aberdeen Asset Management PLC approached RIO to discuss the possibility of a lease surrender and how much remuneration would be required to facilitate a surrender. AAM's current remaining financial liability, discounting the rental uplift, presently stands at £157,000, i.e. more than 50% of the cost of the building. Bearing this in mind, RIO would require a considerable cash incentive from Aberdeen Asset Management PLC to release them, in regard to their current lease liabilities, if RIO was to accept their offer.

At this point you may be wondering why would we consider letting them out of the lease? Wouldn't this be foolish since RIO is guaranteed a minimum of £157,000 in rental income from the block.

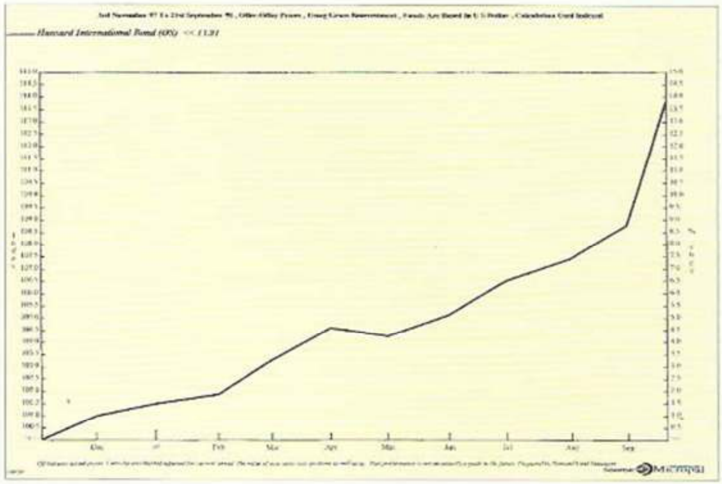
Now for the big picture. The building is sublet. We knew this before we bought the building, in fact it was one of the main reasons why we were interested in this block. Before considering Aberdeen Asset Management PLC's offer, obviously we would fully negotiate the possibility of a new 20 year lease with the current corporate occupant, who has already occupied this building for several years. They are a large PLC company with favourable financial strength. Thus are highly desirable tenant.

Currently the return on 20 Rubislaw Terrace exceeds 11% per annum from income alone, not to mention the very high possibility of capital growth. The present Rent is set at £31,500 per annum paid quarterly in advance.



On completion of the on going works which will put the building back into prime condition a nominal uplift in rent has already been set at £33,000 per annum.

It is RIO's policy to insure all its property holdings on an all risk basis including cover against terrorism, riot, and malicious damage. Twenty Rubislaw Terrace is currently insured for £365,000 with the property owner's liability cover in place at £2,000,000. In addition to this, the policy has provision for a rental loss cover set at £94,500, or 3 years rental income, to assure the income stream.



The end result RIO has taken a mismanaged building and put it back into prime condition turning the block into a highly desirable holding in prime location. We also have increased the rental income and significantly increased the value of the holding, and to top it off, should we accept AAM's offer we would further lower the book value of the building with all this achieved at the tenant's expense. In reading the above one can see the step by step process taken by RIO Properties to increase the Return On Investment (ROI).

RIO CLUB made the statement WHY BONDS WHY NOW! (In November 1997)

In November we switched club member's lump-sum holdings into bonds preempting the coming flight to safety by equity investors. Why Bonds Why Now, part of our release read. In our view the current economic environment is supportive of investment in bonds. This view is based on our belief that: Inflation is going to be lower in 1998/1999 than earlier consensus forecast. Lower inflation usually leads to lower bond yields and consequently, higher bond prices. Government borrowing is still declining and a lower supply will help support higher bond prices. Demand for high grade bonds is on the increase from equity investors looking to diversify their holdings and Asian investors seeking a safe haven in the bond markets. G7 bankers will be more likely to cut rates in 1998 than raise them, in order to maintain growth. If growth in the West were to slip, then the Asian crisis would turn into a global depression. The onus is on the West to maintain world growth.

Having enjoyed over 13% gains already where are we? Some of you I am sure will have read the recent article featured in the FT i.e. The Rally Raging In Bonds, which read as follows.

There is no need to panic there is still a Bull market raging just as long as you are looking at bonds. Their haven status level has propelled US and European Bonds to giddy new levels over the past few weeks. However, going to safe havens does not mean low returns. In fact, many people looking to invest in safe havens the market responses appropriately pushing up bond prices. Again we can say we took the right position for our members who are benefiting by the current bull market in bonds.

The rally has been underpinned by a dramatic narrowing of inflation over the past year. A further decline in real interest rates seems plausible. After all economic growth is slowing, the US is running a budget surplus and European deficits are shrinking. This has also restricted the supply of new paper.

The one thing that would justify another downward move in yields is global recession and deflation. In deflationary Japan after all bonds yield barely one per cent. And this is not impossible if devaluations spread to Latin America and China. Under such circumstances, the flight to quality would overrun any fundamentals.

RIO Club Holds Its position On Bonds International Bond Fund has maintained its large exposure to US and UK bonds, around 50% and 25% respectively. Those markets are still considered to offer the best value for the next quarter, or so. The fund manager has recently disposed of Swedish Fixed Interest holdings and moved into ECU bonds. We agree with this switch as the ECU bond market is something of a Cinderella waiting to go to the ball. The exciting prospect for the ECU Bond Fund is the metamorphosis that will occur at the beginning of 1999 when the Euro is born.

Gold To Shine Again

Before the dollar loses too much of its value, this may be the time for thoughtful investors to take advantage of the high dollar to buy safe haven real estate outside the US. It is possible for club members to apply for a share holding in The RIO Property Group which would offer club members an opportunity to enjoy a steady investment performance produced from a guaranteed stream of rental income from first class corporate tenants.

The same reasoning suggests that now is an excellent time to buy gold and depressed gold mining shares. The dollar is helping to transmit deflation throughout world commodity markets. When the dollar begins to sink under the weight of the US current account deficit, the deflationary squeeze will be at least temporarily eased. Or to put it another way, the markets may then start seeing through the deflationary vortex clearly enough to recognize the safety value of gold. A rise in gold prices is a leading indicator for a rise in other natural resources.

Korea starts to move

South Korea unveiled an emergency stimulus program worth billions of dollars, to lift the sagging economy. The market boosting measures include plans to shore up domestic demand, investment and exports, as well as for financial support for the crucial shakeup of the banking sector. Seoul will boost support for ailing, small and medium firms battling to see their way through a crisis-driven credit crunch. In a bid to bolster domestic demand, the government will expand consumer financing and lower consumption taxes of durable goods, including automobiles and air conditioners.

Japan Steady As She Goes!

The focus of attention remains on the new Prime Minister Mr. Obuchi, but many of the remedial policies he has put forward so far are disappointingly old line. However, the government's proposed Y16 trillion fiscal package will raise growth. The economy continues to be weaker than expected. Q1 GDP figures were particularly weak. Private consumption was flat, implying that the recent income tax rebates were not spent. Private capital investment dropped at the fastest quarterly rate in 33 years and exports fell sharply.

In addition, the yen continues to weaken in spite of a concerted intervention in June by both the US and the Japanese governments. Although a weakening currency is seen as a problem globally, as a weak yen would under cut the Chinese and other currencies, nevertheless it has certain advantages for the Japanese, especially enhancing their export sector.

The RIO Corner

RIO Club members are scattered all around the globe. When one considers that membership is available through referral only, it is reassuring to see that other members have invited their friends and colleagues to join the club. Viva la RIO.