Q1 2018

Quarterly Property Investor Review

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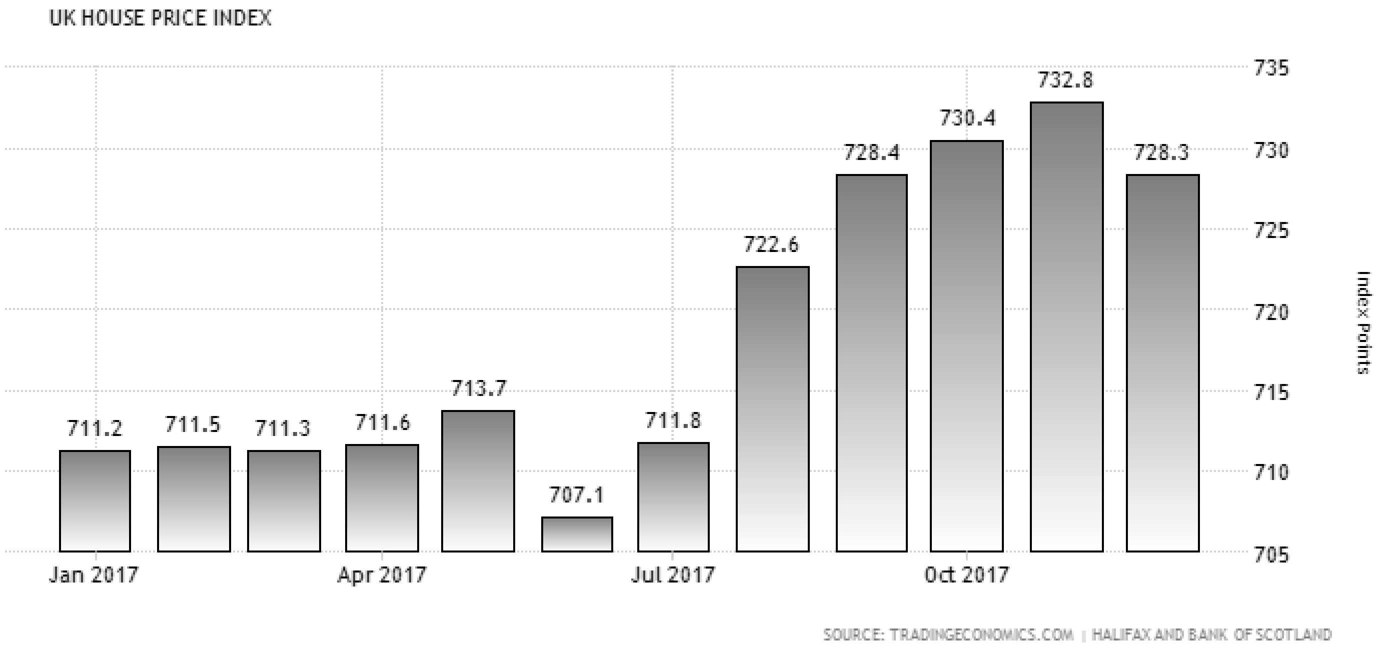
Current UK Market

The residential property market in 2017 was a bit of a mixed bag, as various regulatory and economic changes impacted on returns and overall growth rates. However, the market fundamentals still remain positive and house prices across the UK grew by 5.1% up to November 2017 (source Office of National Statistics).

According to the UK House Price Index prices rose by 3.9% YOY in the three months up to November 2017, though prices dropped by 0.6% at the end of 2017. Our view is that house prices are likely to be supported by an ongoing shortage of properties for sale, low levels of house building, high employment and a continuation of historically low interest rates.



A recent report from UK Finance has shown that, during November last year there were steady increases in mortgage lending for first time buyers and home movers compared to the previous month and the equivalent period in 2016. This data reinforces our view that market activity remains robust despite the recent small rise in interest rates.

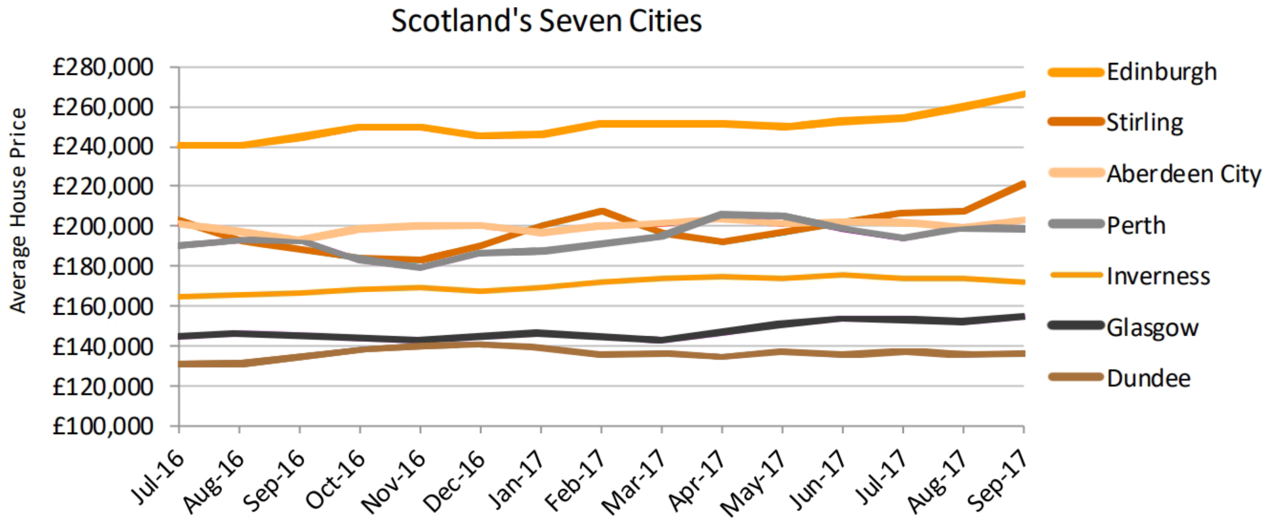
But a note of caution as this increase in lending was not reflected in the buy to let (BTL) market with a reduction of 1.5% in new BTL house purchase mortgages in the month which equates to a reduction of some 6000. Furthermore 13,500 new BTL mortgages were recorded in November which is some 3.6% fewer than in the same month a year earlier. This likely to be a result of the changing regulatory and fiscal environment for investors.

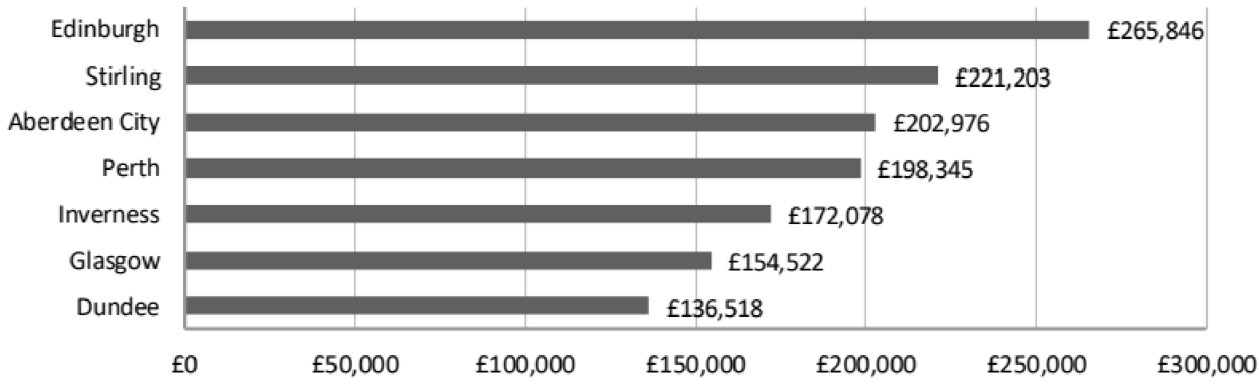
Rightmove have reported a busy start to 2018 with visits to the site up 9% so far this month, in addition the stats have showed that the average price of property coming to the market is up 0.7%, though this is a decline from 2016 and again underlines a cooling off in the market but not any significant readjustment.

Focus on the Scottish Market

In Scotland the outlook for residential property prices remains robust as we see stronger activity in the market. House price inflation across Scotland has remained at above average levels with prices increasing by 3.6% in November 2017 (source UK House Price Index) this equates to an average price per property of £145,992, an increase of 1.1% when compared to the previous month. In comparison average property across the UK rose by 0.1% when compared to the previous month.

Your Move also have reported strong growth in prices across Scotland with an increase of 3.5% equating to an increase of £6,000 on last years prices and an average price of £175,882.





Source: Your Move

But looking at the regional data the growth is somewhat patchy though most areas are seeing positive levels of capital uplift.

Please see a Regional Update Map on the next page.

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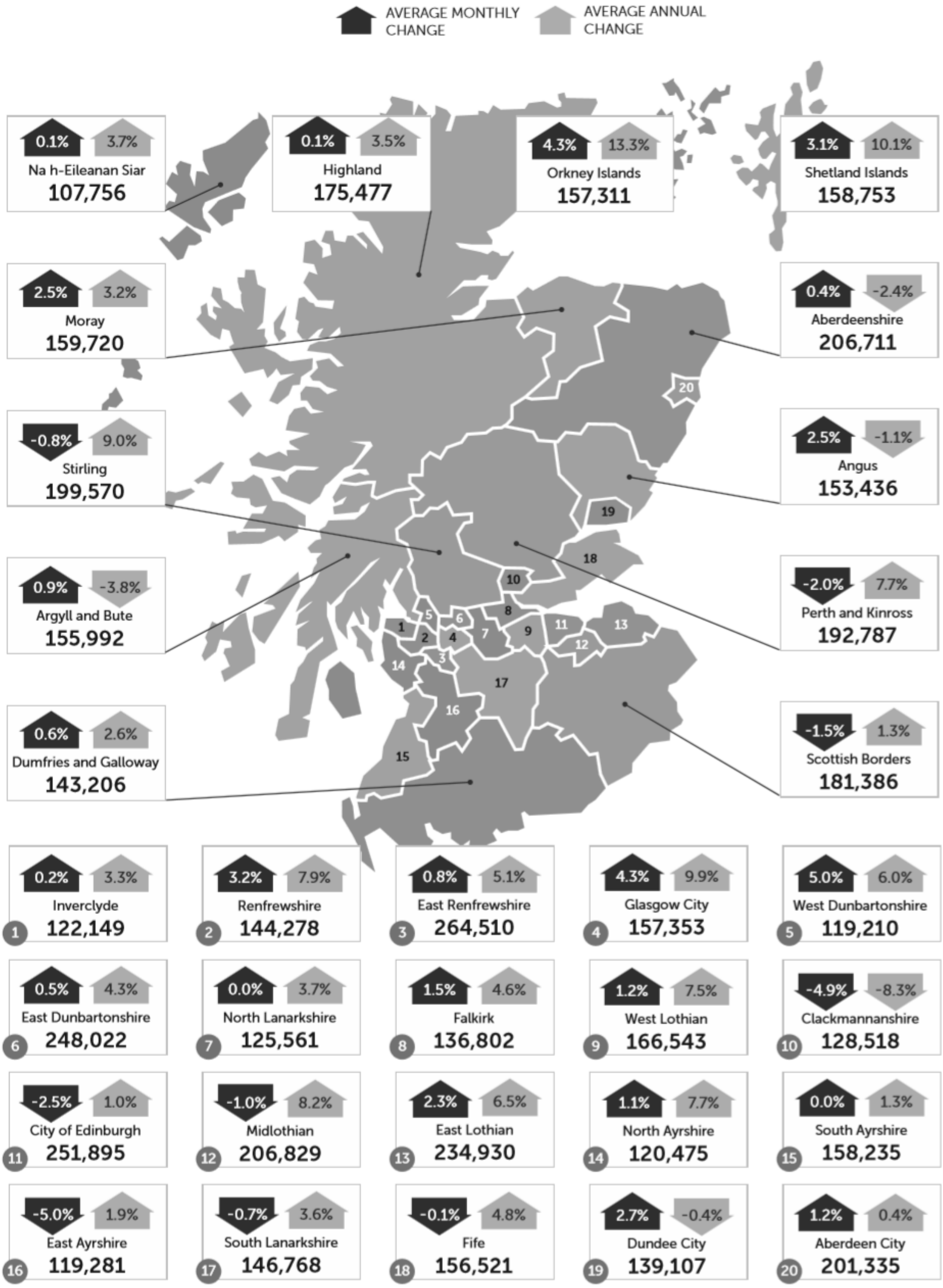
Regional update

Average House Prices in Scotland, by local authority area, comparing November 2016 and October 2017 with November 2017.



Thus despite a modest slowdown compared to mid 2016 we feel the data does show that there is currently no sign of any significant corrections on the horizon. This why we believe that UK residential should weather the continuing storms of political and economic uncertainty and will remain an excellent destination for investors looking to generate good returns.

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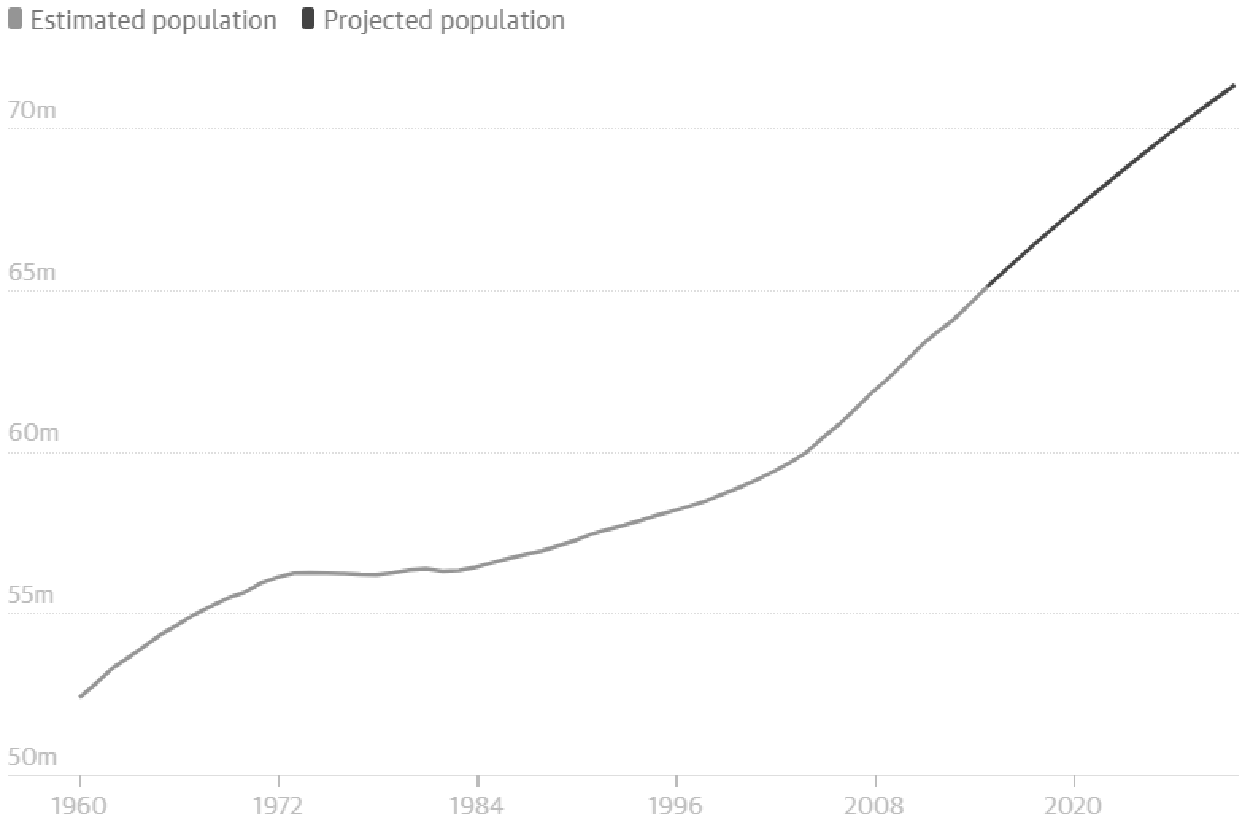
The UK Rental Market

2017 was a tumultuous year for land lords with a raft of new legislation and other changes that could potentially impact on profit margins. There are further changes ahead specifically around minimum levels of for EPC's, increasing stress testing levels for finance to portfolio landlords and the roll out of the new Private Residential Tenancy in Scotland. The result of this is more and more landlords are now choosing to use a professional agent to mitigate their risk and help them maximise returns on their investments. ARLA Property mark recently announced that the average number of properties managed by letting agents rose from 192 to 200 in December last year which is the highest since records began.

There has been a reduction in numbers of properties bought by Landlords, 14.7% of homes were bought by landlords in 2016 down to 12.5% in 2017. However, the largest decline has been in London with 5,400 fewer homes bought as investors have sought out other areas that offer a better potential for return than the capital. The North East and Scotland have been the areas that have benefited most from this shift in focus. Furthermore, the result of a reduction in homes available in the Private Rented Sector (PRS) is likely to further increase upward pressure on rents particularly in areas that are already suffering from continued high levels of demand and diminishing levels of stock.

Demographic trends suggest that demand for housing across the UK will continue to rise as most landlords remain positive in their outlook and a recent Landlord Voice survey only found 3% of BTL landlords are looking to sell up.

The UK population is set to reach 71m by 2030



Guardian graphic | Source: ONS

The UK Rental Market

In their latest research document Knight Frank predicted that the PRS will continue to grow with some 5.79 million households in the sector by 2021 and increase from approximately 5 million today.

This growth is being driven by conditions both in the housing and labour markets. Younger workers especially are taking advantage of the increased flexibility of renting as a tenure which allows increased levels of mobility without any of the costs associated with buying or selling a property. Added to this affordability constraints in the sales market are also limiting some tenants plans for house purchase, resulting in a longer stay in the PRS as they save for a deposit.

Recent figures from Countrywide show that rents across the UK were up in 2017 by 2.4% compared to 1.8% in 2016. London rents have jumped back from a fall of 0.8% in 2016 to an increase of 3.2% last year.

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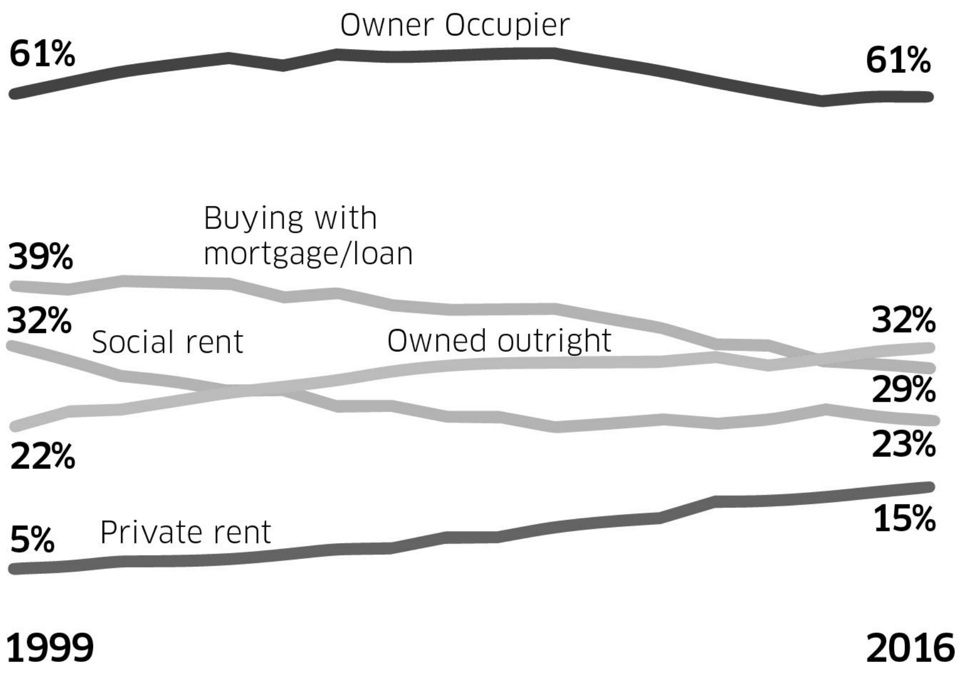
Focus on the Scottish Rental Market

In Scotland the PRS has continued to grow, the Scottish Household Survey 2016 found that the sector had expanded by an estimated 250,000 households since 1999 and now accounts for 15% of all households. At the same time the percentage of households in the social rented sector declined from 32% in 1999 to around 23%.



Countrywide reported a growth of 3.3% in rent which is the largest jump in prices in the UK even outperforming the recent bounce in rents seen in London.

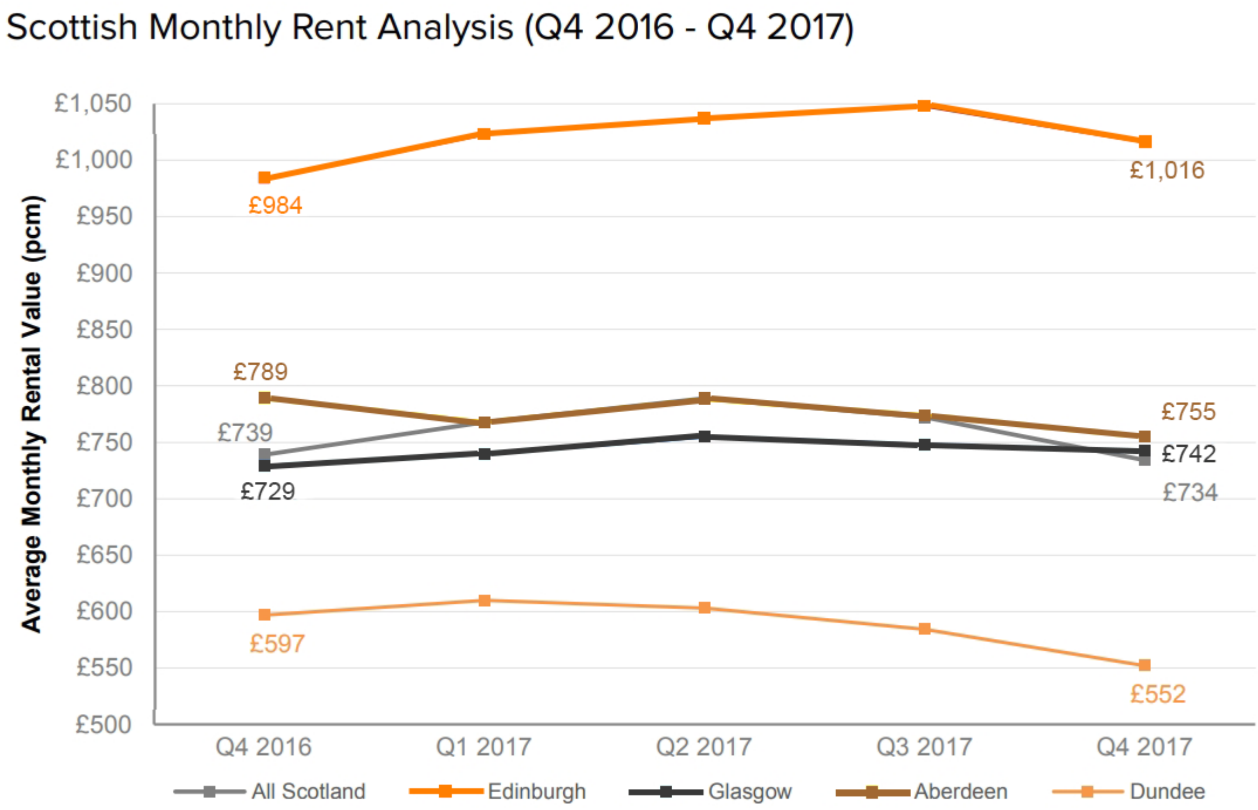
The latest figures from Citylets actually show that there has been a minor contraction of 0.7% YOY to an average rent of £734.

Market Overview - Q4 17

Beds	Average Rent	Rent Change 1yr	Rent Change 3yrs	Rent Change 5yrs	Av. TTL (days)	TTL Change YoY	Let within a week	Let within a month
1 bed	£560	0.2%	3.5%	13.6%	27	1	21%	66%
2 bed	£696	-1.6%	0.0%	9.6%	34	4	15%	55%
3 bed	£863	-1.1%	-1.5%	6.0%	37	2	13%	51%
4 bed	£1,201	-1.2%	-8.9%	3.2%	44	0	12%	45%
Total	**£734**	**-0.7%**	**0.3%**	**9.4%**	**33**	**2**	**17%**	**58%**

Source: Citylets Report

Focus on the Scottish Rental Market



Source: Citylets Report

As with the sales market we believe the underlining market fundamentals remain strong with the PRS projected to continue to grow to meet increasing levels of demand. In a recent survey carried out by YouGov on behalf of Knight Frank it was forecast that there will be another 800,000 more households living in private rented accommodation over the next four years. This is an increase of some 16% on the estimated 5 million today.

Focus on Edinburgh

Edinburgh has always been a very attractive place to live and work, it currently scores second on its quality of life and 4th for beauty and is home to more FTSE 100 companies than any other city outside of London. Added to this it also has a higher proportion of start-ups per 10,000 of the population than the UK average. The city benefits from positive migration with the population having grown by 24,540 between 2012 and 2016.

Edinburgh has one of the highest projected population increases of +17% to 2039, which compares to the Scotland average of 7.5% growth. The long-term household growth in Edinburgh is 47% compared to Scotland's overall growth of 31% (NRS, 2014). In numbers the population in Edinburgh has increased by 24,540 over the last five years and broke 500,000 for the first time in 2016. This expansion is forecast to continue at a rate of more than 5,000 per annum over the next 20 years. However new build development has not kept pace with population and household growth, delivering on average 1,080 new homes per year (2008- 2017 Q1). Whilst there has been a recent pick up reaching 1,832 units in the year to March 2017, this is not enough to mitigate historic undersupply (source Savills).

According to recent figures released by the Registers of Scotland house prices in Edinburgh increased year on year by 8% to an average of £246,508 in addition the city has also performed consistently well in the Hometrack UK Cities House Price index and was in the number one spot in September and December last year.

Table 2 - City level summary

City	Current price	%yoy Sep-17	%yoy Sep-16
Edinburgh	£219,500	6.7%	3.8%
Manchester	£156,800	6.5%	6.6%
Birmingham	£153,200	5.9%	6.6%
Bournemouth	£285,100	5.4%	6.4%
Leicester	£163,300	5.4%	5.5%
Glasgow	£120,300	5.3%	1.8%
Bristol	£276,900	5.1%	11.8%
Portsmouth	£230,300	5.1%	8.1%
Nottingham	£144,200	5.0%	5.5%
Southampton	£222,600	4.4%	7.4%
Leeds	£161,100	4.3%	4.9%
Sheffield	£135,100	4.2%	3.7%
Liverpool	£114,800	3.2%	2.2%
Belfast	£129,100	3.1%	2.9%
Newcastle	£125,900	3.0%	1.5%
Cardiff	£198,000	2.4%	6.4%
London	£493,800	2.3%	8.9%
Oxford	£427,100	2.3%	7.8%
Cambridge	£433,600	1.7%	5.1%
Aberdeen	£173,900	-1.8%	-10.6%
20 city index	£251,600	4.9%	6.0%
UK	£211,200	3.6%	6.0%

Rents in Edinburgh Q4 2017 have reflected the national trend showing a small reduction from the a high of £1037 in Q3 of last year. Average rent in the city stood at £1016 per month which is a circa 3% YOY increase. 1 bed flats performed the best showing an increase of 3.5% YOY.

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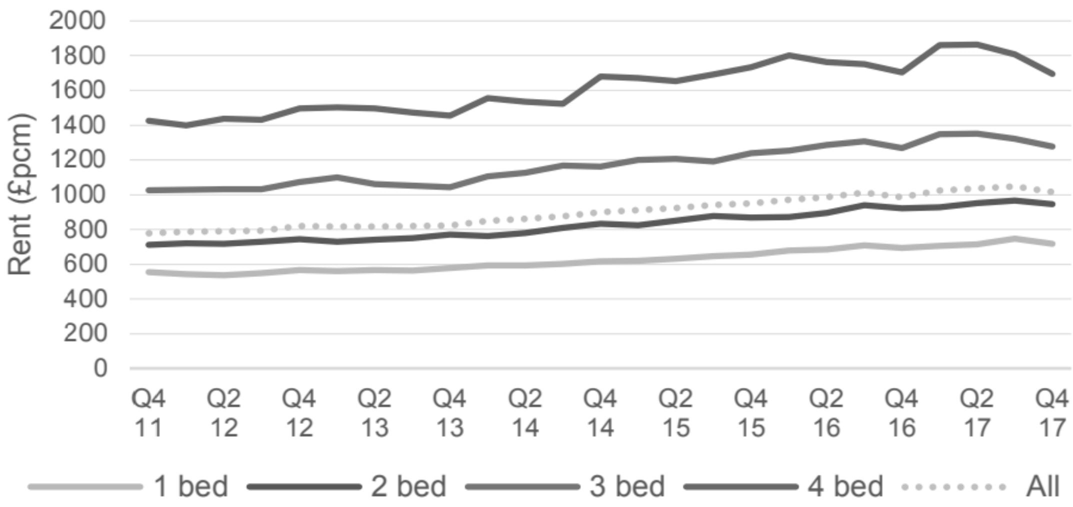
Focus on Edinburgh

Average Rent (pcm) by Number of Bedrooms



Source: Citylets Report

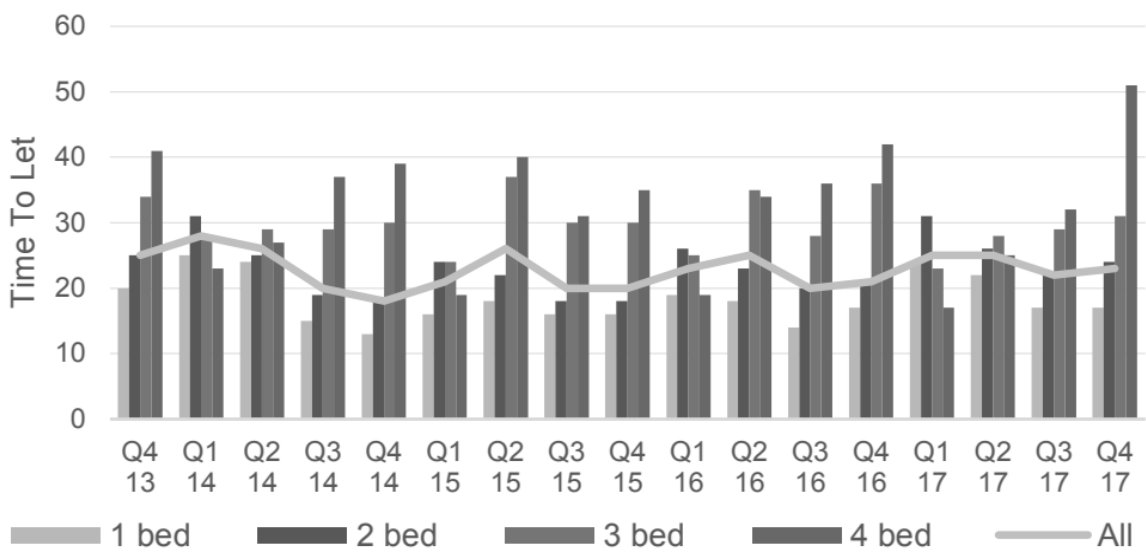
Market Overview - Q4 17

Beds	Average Rent	Rent Change 1yr	Rent Change 3yrs	Rent Change 5yrs	Av. TTL (days)	TTL Change YoY	Let within a week	Let within a month
1 bed	£718	3.5%	16.6%	27.1%	17	0	33%	83%
2 bed	£946	2.7%	13.6%	27.2%	24	3	19%	68%
3 bed	£1,278	0.8%	10.1%	19.2%	31	-5	16%	58%
4 bed	£1,694	-0.5%	0.8%	13.2%	51	9	3%	25%
Total	**£1,016**	**3.3%**	**12.9%**	**24.1%**	**23**	**2**	**24%**	**72%**

Source: Citylets Report

Average Time to let has also remained fairly static at 23 days, and reflecting the rent figures with one bed flats showing the best figures at 17 days.

Average Time To Let (TTL) by Number of Bedrooms



Source: Citylets Report

Focus on Edinburgh

It will be interesting to see if Q1 2018 shows a continued cooling of rental increases or is this just a seasonal fluctuation? Wider economic pressures will increasingly impact on this as real wage growth remains static and affordability becomes more of an issue.

Lack of rental stock is being exacerbated by the continued runaway growth in the short term let market. In a recent report by the University of Sheffield academic Alasdair Rae shows that 9,638 properties are listed for short-term let in Edinburgh an increase of 54% in just over a year from 6,272 in July 2016. Of these listings 5,474 were for whole properties and a large percentage of these will be concentrated in the city centre. This massive growth has now become political with Green MSP Andy Wightman seeking to have the short term sector regulated.

It is too early to say whether the reduction in rental prices is the beginning of a new trend or just a seasonal adjustment but the YOY growth rates remain strong and again affordability levels need to be taken into consideration.

In summary we believe prices look set to continue to rise due to a significant under supply of stock while demand levels remain high. However, continued political and economic uncertainty and stagnant real wage growth will have the effect of reducing demand resulting in a reduction of capital inflation. But we still expect to see growth rates of between 2% and 3% which is a sustainable level of growth. Added to this the rental market will remain strong again due to the undersupply of stock and continued strong demand.

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Case Study

HMO 5 Bed flat - £365,000

5 Bedroom Flat	**100% Equity**	**65% Mortgage 35% Equity**
Deposit/Payment	(£365,000)	(£127,750)
Initial Outlay (Legal Fees, Search Fee, Mortgage, Certificates & Contingency)	(£32,600)	(£32,600)
Total Cash Investment	(£397,600)	(£160,350)
Monthly Rent	£2100	£2100
Gross Yield	6.9%	6.9%
Annual Income (Inc 3% Void Period)	£24,444	£24,444
Annual Costs (including management, insurance and mortage interest)	(£4,772)	(£14,262)
Net Yield	4.95%	5.40%
Annual cash surplus	£19,672	£10,181
Sales Value at end of five years assuming 4% annual appreciation **+ five years annual surplus**	**£444,078** **£98,359**	**£444,078** **£50,909**
Less sales fees and redemption charges	£13,332	£13,332
Less outstanding mortgage	(£0)	(£237,250)
Balance Remaining	£529,115	£244,415
Increase in Equity	**£131,515**	**£84,065**
Average annual return on equity invested	**6.62%**	**15.44%**
Total return	**33.08%**	**52.43%**

Disclaimer:
Please remember that past performance of a property investment is not necessarily a guide to future performance. The value of an investment as well as the income from it can fall as well as rise as a result of market fluctuations. All calculations above are meant as a guide only, whilst every care has been taken to provide an acurate picture of future performance, Glenham Property Management Limited can accept no responsibility or liability for the performance of any property.

Case Study

1 Bed flat - £125,000

1 Bedroom Flat	65% LTV	100% Equity
Deposit/Payment	(£43,750)	(£125,000)
Initial Outlay (Legal Fees, Search Fee, Mortgage, Certificates & Contingency)	(£7250)	(£7250)
Total Cash Investment	(£51,000)	(£132,250)
Monthly Rent	£690	£690
Annual Income (including 5% void period)	£7,866	£7,866
Adjusted Yield (5% void)	6.29%	6.29%
Annual Costs (including management, insurance and mortage interest)	(£5123.26)	(£1873.26)
Annual cash surplus	£2742.75	£5992.75
Monthly cash surplus	£228.56	£499.40
Sales Value at end of five years assuming 4% annual appreciation	**£152,081**	**£152,081**
+ five years annual surplus	**£13,714**	**£29,964**
Total	£165,795	£182,042
Less sales fees and outstanding mortgage	(£81,052)	(£3802)
Balance remaining	£81,052	£178,243
Increase in Equity	**£29,743**	**£45,993**
Total Return	**58.32%**	**34,78%**
Average Return Per annum	**11.66%**	**6.96%**

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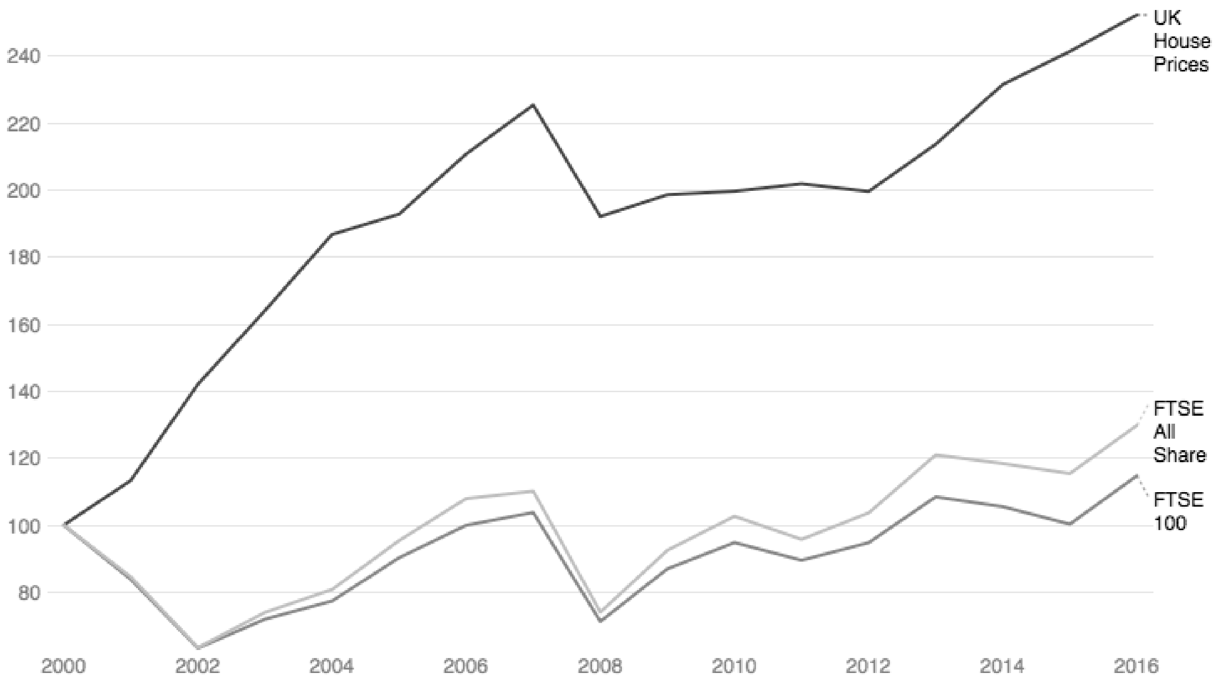
Property as an Investment

With interest rates still at low levels and look set to rise only slowly, many investors are looking to use capital to generate the income they need. Property has historically delivered compelling rental yields combined with attractive levels of income and capital growth over the longer term. The result is high levels of returns compared to other asset classes with many investors seeing double digit numbers on leveraged investments.

A fair and interesting way of showing this is to compare indices and indexing data to a common starting point to weigh up how various asset classes perform. The graph below shows the index of all UK house prices, FTSE All Share and FTSE 100 between the years 2000 and 2016. Each has been pulled to a common starting point and the formula used has been proportionate to each index.

Indexed Growth of UK Property, FTSE All Share and FTSE 100 (2000 - 2016)



**Nationwide's House Price Index, House Prices Since 1952 and Swanlowpark.co.uk*

Source: Property Moose • Created with Datawrapper

Investment decisions are personal and each individual's circumstances and opinions will always drive their choices as will reactions to volatility, inflation, liquidity and affordability. Arguably investment property can be considered illiquid and unaffordable while the stock market is often perceived to be volatile and confusing. But that said if you can accept the rise and fall of the stock market you could benefit from rewarding returns overtime. Likewise, if you can afford to invest in property you could be wrapping your cash in an inflation beating asset.

Glenham is an asset management company and we continually strive to ensure our clients are benefiting form the best possible returns from their investments. We will always advise our clients to build a diversified portfolio of assets of which property is one and one that can deliver significantly strong returns over time with opportunity for increase in equity and a regular source of income over the investment term.

Why Choose Glenham Property

- Over 20 years' experience in the Edinburgh property market
- Free advice & personal service
- Industry qualified & accredited by industry bodies
- Member of ARLA, NOFPP Client Money Protection Scheme & Property Ombudsman
- Bespoke service for investor clients

Our Property Search and Acquisition Service offers the following:

- Dedicated Property Consultant
- Access to our exclusive 'off market' properties
- Full market assessment of all properties meeting your investment criteria
- Full investment analysis of shortlisted properties
- Viewing of shortlisted properties.
- Access to our Financial Consultant who will do a financial review
- Help in negotiating offers and liaising with solicitors

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