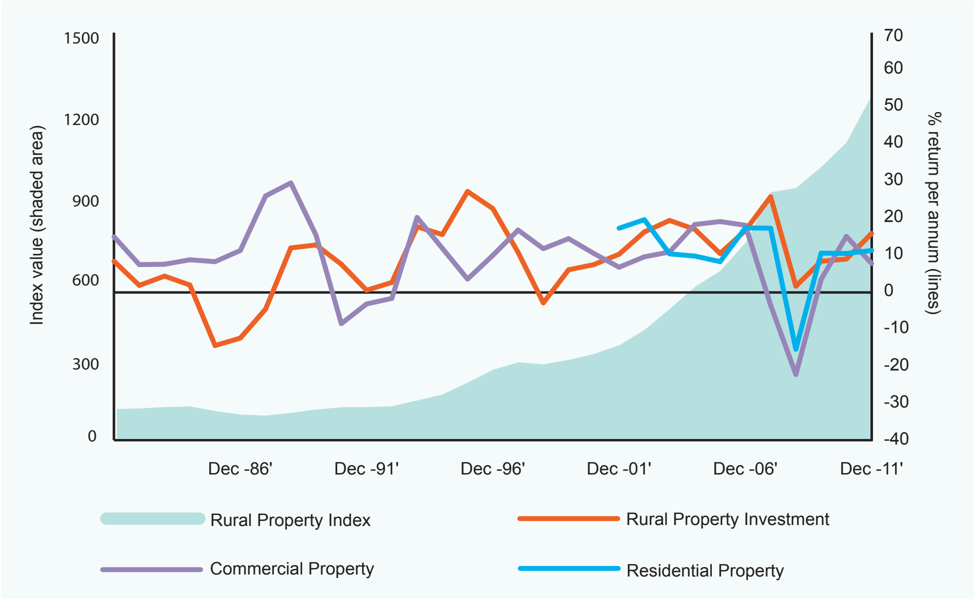
IPD UK Rural Property Investment Index

Results for the year to 31st December 2011



Annual

The IPD UK Rural Property Investment Index measures ungeared total returns to direct investment in a sample of tenanted farm land. At December 2011 the sample consisted of 535,344 known acres of land on 432 estates with a total capital value of just over £2.6bn and the total return was **15.9%**

IPD UK Rural Property Investment Index

	Total return index Dec-2010 Dec 1980 = 100	Total return index Dec-2011 Dec 1980 = 100	Total return % 1 yr	Income return % 1 yr	Capital growth % 1 yr	Annualised total returns % 3yrs	5yrs	31yrs
Rural Property Investment	1,077.9	1,249.8	15.9	1.6	14.2	11.1	11.9	8.5
Commercial Property	1,403.4	1,513.4	7.8	5.8	1.9	8.7	-0.7	9.2
Residential Property*	262.7	292.5	11.3	2.9	8.2	10.8	6.2	-

*Index based at December 2000. Data sources: IPD UK Annual Property Index, IPD UK Residential Property Investment Index.

Comparative Data

Equities	3,350.5	3,234.6	-3.5	-	-	12.9	1.2	11.9
Bonds	1,784.6	2,063.7	15.6	-	-	7.9	9.0	10.3

Data sources: FTSE All-Share Index, FTSE UK Gilts Index 5-15 yrs.

Sponsors

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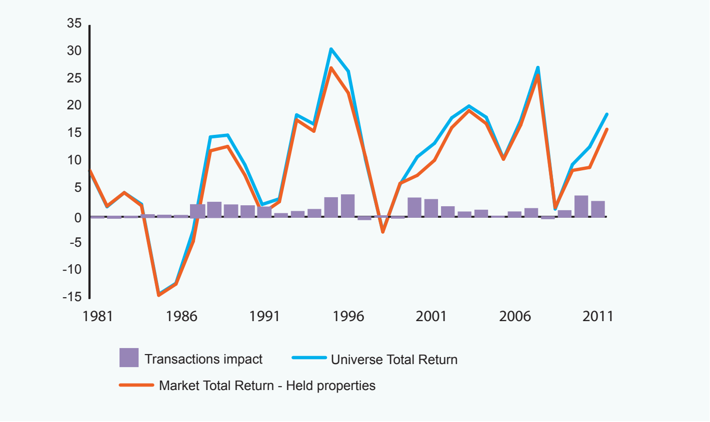
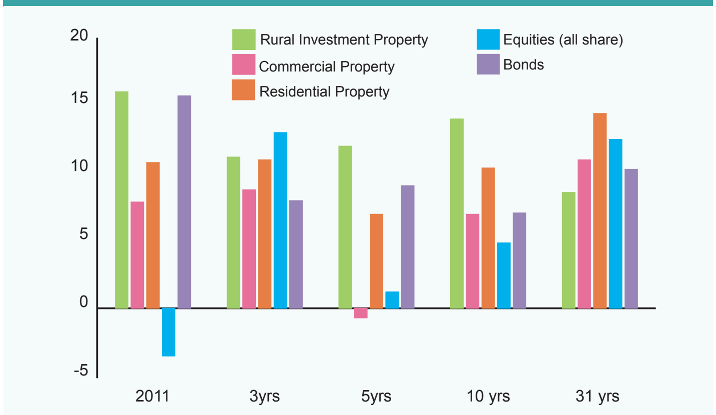
Rural Property Investment Performance

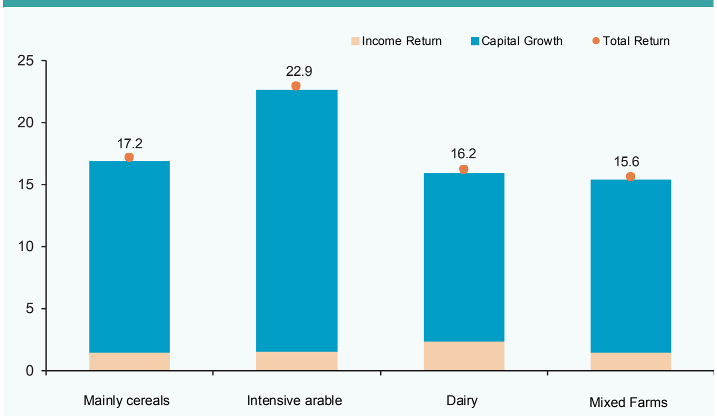
UK Market Total Return % pa, showing effect of transactions



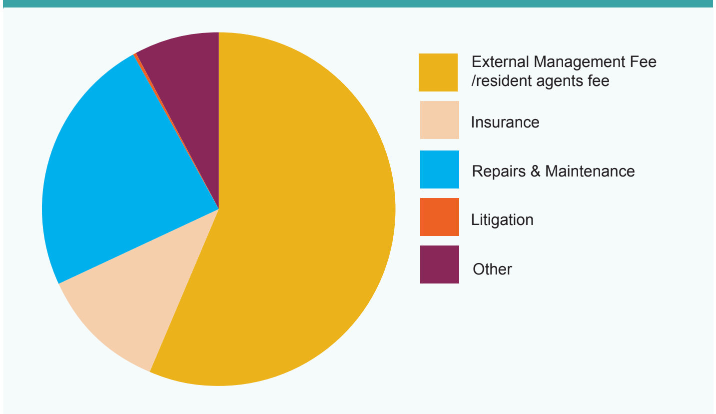
Investment performance by asset class, % pa



Total return and the income & capital components, held property 2011 %



Cost breakdown on held properties %



Headline results

- In the twelve months to December 2011 the IPD Rural investment index returned 15.9%, an improvement on the 9% recorded in 2010.
- Capital growth, at 14.2%, drove the returns, while income return, at 1.6%, stayed in line with 2010 at its lowest point in the index's thirty one year history.
- Transaction activity continued to have a strong effect on performance, driving total returns up to 18.7%, and capital growth to 16.9%.
- There was a continuing net disinvestment from tenanted farmland in 2011, this now stands at -1.1%.

Other asset classes

- The IPD Rural investment index outperformed the commercial property market in 2011, with the IPD all property index achieving a total return of 7.8% for the year.
- On a three, five and ten year basis, farmland remains the top performing asset class in UK property, with returns of 11.1%, 11.9% and 13.9% respectively. Commercial property only managed to deliver 8.7%, -0.7% and 6.9% over the same periods.
- Against equities and gilts, commercial farmland compares well, outperforming both on a five and ten year basis, though underperforming the more volatile equities market over three years.

Market Commentary (Provided by sponsors)

In contrast to the world economy, confidence in UK agriculture has been positive, especially for the arable sector.

The value of farmland for investment has risen due to rising crop and commodity prices and strong demand for land. **Capital values rose significantly** for investment land, as for all farmland. This was driven by a range of factors.

- Many property investors want to diversify their portfolios and farmland is seen as a safe long-term haven that is less volatile compared with many other assets. Statistics on land's performance during recessions supports this.
- There is large unsatisfied demand for land from farmer, investor and residential buyers which is undoubtedly boosting farmland values. However there is a very marked two tier market developing, where the strength of demand is very localised. There is much weaker demand for poorer land or land with no opportunities, while demand for better land remains strong.
- Tax advantages of agricultural land are a significant benefit and are in most private investors' minds.
- Continued support for agriculture through the Common Agricultural Policy is helping incomes. Although the next reform has not been agreed, we do not expect the regime to change radically and this is giving farmers more confidence in the medium-term outlook for farming incomes.

There has been **strong income growth** over the last year for both the agricultural and residential elements of rural portfolios.

- Many agricultural rents had not been reviewed since the 1990s and are now increasing by 20% or more when reviewed; many could be reviewed again to even higher levels if agricultural commodity prices remain high, which they are expected to, and the costs of growing crops remain under control.
- Rents for let houses and cottages have been increasing in most regions, given the turmoil in the owner occupied housing market and lack of credit. We expect letting demand to remain high which will feed through to the results.
- Opportunities for diversification and in particular renewable energy opportunities are increasingly being explored. Although still a small contributor to overall returns, they can result in a major income boost at a property level, producing higher returns compared with other rural investments.

Market commentary (provided by the sponsors continued)

Regional Variations (Annualised)			
Total Return	1yr	3yr	5yr
South East	14.5	12.9	12.2
Eastern	12.6	8.5	8.9
East Midlands	19.0	11.3	12.5
West Midlands	15.6	9.4	11.8
Yorkshire & Humberside	17.2	12.2	14.0
Northern England	16.0	12.2	9.4
Other	21.2	12.0	14.1
All UK	15.9	11.1	11.9

Income Return	1yr	3yr	5yr
South East	1.7	1.6	1.7
Eastern	1.3	1.6	1.7
East Midlands	1.7	1.8	1.9
West Midlands	1.6	1.9	2.2
Yorkshire & Humberside	1.7	1.7	1.9
Northern England	1.5	1.5	2.0
Other	1.4	1.4	1.6
All UK	1.6	1.6	1.8

Capital Growth	1yr	3yr	5yr
South East	12.6	11.1	10.4
Eastern	11.1	6.8	7.1
East Midlands	17.0	9.3	10.4
West Midlands	13.8	7.3	9.5
Yorkshire & Humberside	15.3	10.4	11.9
Northern England	14.3	10.6	7.3
Other	19.5	10.4	12.4
All UK	14.2	9.3	9.9

We do not expect these underlying drivers to change:

1. The medium-term outlook for agricultural production, consumption and prices is positive according to the major agricultural institutions (the European Commission, the United States Department of Agriculture and the United Nations Food and Agriculture Organisation). This will support further agricultural income growth.

2. Although the new national planning guidance in the UK was positive towards development in the countryside, we do not expect it to lead to a major increase in house building or development opportunities in the short to medium term as, even though the planning framework has changed, it will take time to filter through into decisions made by local authorities. This will support residential rents and may also lead, eventually, to more development opportunities, if the current barriers of lack of finance and large infrastructure costs can be overcome.

3. There are no reasons to expect the levels of demand for farmland to fall. Concerns about the future of the Eurozone will, if anything, increase the ‘flight to safety’ by investors. Payments to farmers through the Common Agricultural Policy are likely to stay at similar levels to now and indications are that the UK Government’s tax simplification programme will not change the favourable tax status of land.

4. The amount of land for sale is likely to remain low. So far in 2012, it looks as if there will be less land marketed than in 2011.

5. For the first time in many years we have seen some sale and leaseback investments. Although still a rarity, and requiring very high rents to make them work, there are a number of landowners willing to consider them.

In our opinion, the medium term outlook for the sector is positive, both for income and capital growth.

Rural Property Investment including transactions					Rural Property Investment Held Properties only				
	Total return	Income return	Capital value growth	Index total return Dec 1980=100	Total return	Income return	Capital value growth	Gross rent passing growth %	Initial yield
2007	27.2	2.0	24.8	1195.6	25.8	2.1	23.3	-3.6	2.2
2008	1.4	2.0	-0.6	1212.4	1.7	2.1	-0.4	7.0	2.2
2009	9.5	1.7	7.7	1327.6	8.4	1.8	6.6	6.9	2.1
2010	12.7	1.6	11.0	1496.8	9.0	1.6	7.3	3.9	1.7
2011	18.7	1.5	16.9	1776.7	15.9	1.6	14.2	24.7	1.7
Annualised return over the last:									
3 years	13.6	1.6	11.8		11.1	1.6	9.3	11.5	
5 years	13.6	1.8	11.6		11.9	1.8	9.9	7.4	
10 years	15.2	2.2	12.8		13.9	2.2	11.4	3.1	
20 years	14.1	3.3	10.5		12.7	3.2	9.1	2.5	
31 years	9.7	3.8	5.7		8.5	3.8	4.6	2.7	

Index composition — 2011 overview

Index construction

The IPD UK Rural Investment Property Index measures ungeared total returns to direct investment in a sample of tenanted farm land. It is compiled from valuation and management records for individual farms and estates held by institutional and private investors. Data is collected from investors and managing agents and audited by IPD. All year-end valuations used in the index are conducted by qualified valuers working to RICS guidelines. Confidential tenant names are not disclosed to IPD. At December 2011 the sample consisted of 535,344 known acres of land on 432 estates with a total capital value of just over £2.6bn.

The Index shows total returns on those properties that have been held throughout the year without any part purchases or sales. This basis is the most appropriate for comparison with the index results for other asset classes.

However the realisation of profits from reversions to vacant possession and active management, which frequently involve part sales or purchases of small parcels of land or buildings, are both integral aspects of the rural investment market. Further analysis on the total market performance is available from IPD.

The Index shows annual time weighted total returns calculated by chain linking monthly returns to capital employed.
In any month:

- Total return is the sum of capital and income return on capital employed.
- Income return is income receivable net of property management and other irrecoverable revenue expenditure as a percentage of capital employed in that month.
- Capital growth is the change in capital value from one month to the next, net of any capital expenses, as a percentage of capital employed.
- Capital employed is the capital value at the start of the month plus the gross purchase price of any whole or part purchases and any on-going capital expenditure.

The monthly returns are the basic building block for returns over all other periods. Annual returns are calculated by chain linking 12 monthly values. Annual time-weighted returns calculated in this way require details of monthly cashflows and monthly capital values. Where monthly valuations are not available, IPD computes estimated values by interpolation between successive quarterly or annual actual valuations.

- Initial yield is current net rent passing divided by year-end gross capital value.
- Net Investment is the sum of gross purchase costs, development expenditure, and costs of all capital improvements, less net sales receipts and all other capital receipts summed over the period.
- Turnover is the sum of gross purchase costs, net sale receipts and all other capital expenditure and receipts summed over the period.

The historical figures are unfrozen, thus any new funds or changes to current funds are reflected in the index.

	Total value (£m)	Number of acres	Number of Assets
1981	487	512,161	370
2002	979.8	600,215	269
2003	1084.4	579,208	257
2004	1605.7	569,989	283
2005	1657.4	708,233	253
2006	1765.8	697,023	246
2007	2249.2	676,027	276
2008	2097.0	586,335	242
2009	2096.6	516,412	501
2010	2261.4	541,492	562
2011	2603.2	535,344	432

Regional breakdown

At end 2011	Weight by region (% of cap val)	Capital value (£ per acre)	No of Assets
South East	16.6	4,995	183
Eastern	18.1	2,776	83
East Midlands	15.5	4,859	44
West Midlands	7.5	5,786	14
Yorkshire & Humberside	7.2	4,389	18
Northern England	6.9	5,189	29
Other*	28.2	3,960	61

* The ‘Other’ region includes South West England, Wales and Scotland

Contact

Rural market:	mark.weedon@ipd.com	+44 (0)20 7336 9286
General enquiries:	enquiries@ipd.com	+44 (0)20 7336 4783

IPD Head Office
1 St. John’s Lane
London EC1M 4BL UK
T: +44 (0)20 7336 9200
F: +44 (0)20 7336 9399
ipd.com