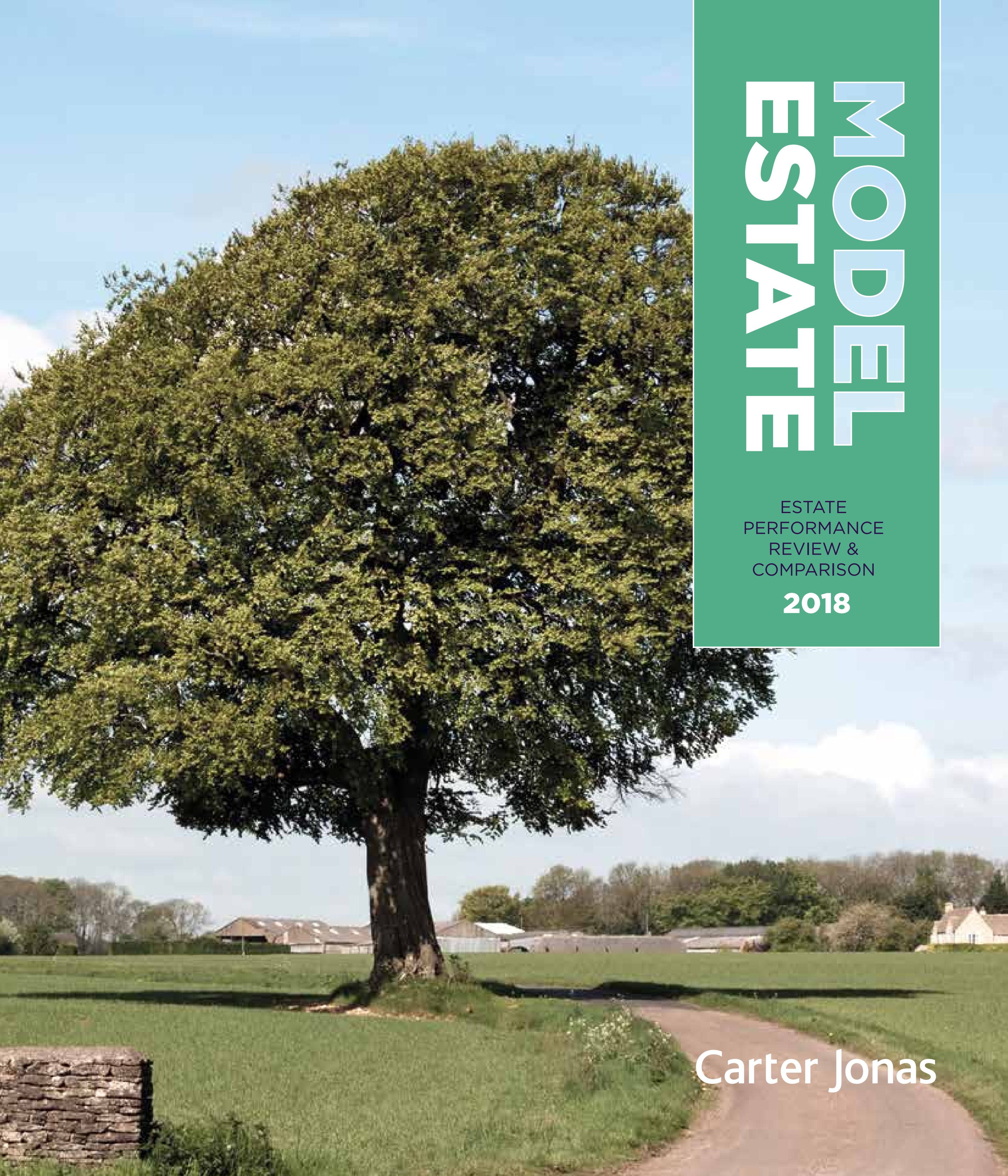

MODEL ESTATE

ESTATE PERFORMANCE REVIEW & COMPARISON

2018

Carter Jonas

WELCOME TO THE 2018 MODEL ESTATE RESEARCH REPORT. ALL FINDINGS IN THIS REPORT ARE BASED ON VALUATIONS UNDERTAKEN ON 31 DECEMBER 2017.

Reflecting on 2017, the word that immediately springs to mind is caution; caution over the UK Government's approach to negotiating Brexit, caution over the direction of land values and caution surrounding the future of support payments within the agricultural sector.

However, together with caution comes a degree of optimism and as we countdown to the UK's exit from the EU, investors and businesses need to remain confident, as now is the time to prepare for the inevitable change.

In this year's report, we not only look at the performance of the Model Estate over the last year, but also at the opportunities available for the sector.

We hope that you find our report thought provoking. As always, we would welcome your comments and if you have any queries please do not hesitate to contact us.

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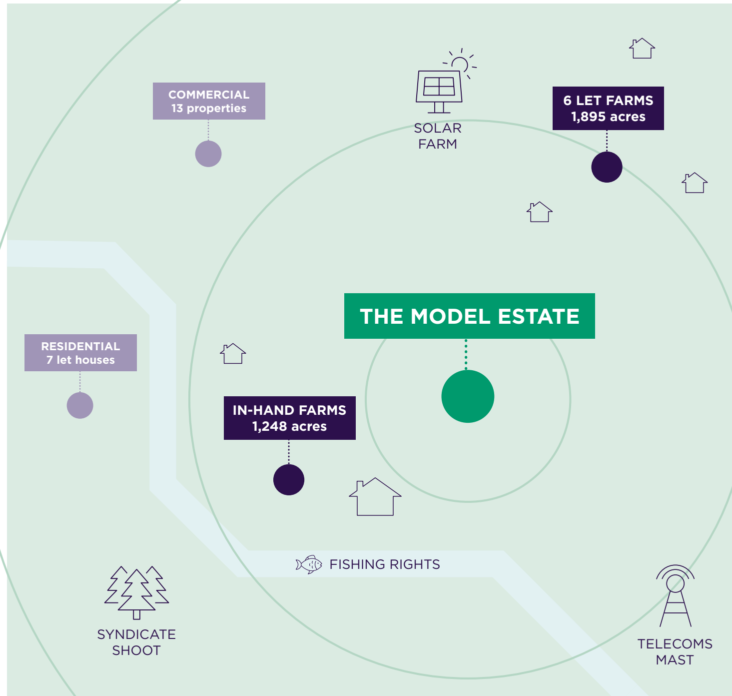


Component	Description	2016 value	2017 value	Change between 2016 & 2017
Let Farms	1,524 acres of arable land and 371 acres of grassland 6 farms (4 FBT's and 2 AHA's) 3 farmhouses (1 FBT and 2 AHA's) and 4 cottages (1 Ag Protected and 3 AST's)	£14.87m	£14.54m	-2.3%
In-hand Farms	1,073 acres of arable land, 71 acres of grassland, 80 acres of woodland and 24 acres of tracks 1 Grade II manor house and 1 farmhouse	£18.48m	£18.15m	-1.8%
Let Residential	7 houses (5 AST's, 1 Ag Protected and 1 Rent Act)	£2.77m	£2.85m	2.6%
Let Commercial	13 properties (all L&T's)	£3.90m	£3.90m	0.0%
Other	Telecoms mast, syndicate shoot, fishing rights and a solar farm	£679,740	£678,203	-0.2%
Total Value		**£40.71m**	**£40.11m**	**-1.5%**

Key
FBT Farm Business Tenancy **AHA** Agricultural Holdings Act 1986
Ag Protected Rent (Agricultural) Act 1976 **AST** Assured Shorthold Tenancy
Rent Act Rent Act 1977 **L&T** Landlord and Tenant Act 1954

ABOUT THE MODEL ESTATE

The Model Estate is a notional agricultural estate created by Carter Jonas in 2010. The Estate comprise 3,168 acres, which includes a combination of let and in-hand farms, a commercial and residential portfolio, a telecoms mast, fishing rights, a syndicate shoot and a solar farm. It is located within the geographical triangle bounded by the M4, M40 and M5 motorways.

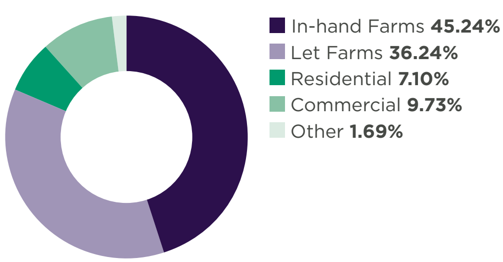
WHY WAS THE MODEL ESTATE CREATED?

Analysing the Estate's data every year enables us to give a balanced view of all the assets and make strategic recommendations for the coming months, similar to the annual reviews produced by Carter Jonas for estates under our management.

Furthermore, the Model Estate is also used to compare the performance of agricultural land against a basket of alternative asset classes: residential and commercial property, equities, gold, fine wine and classic cars. By recording the data since 2010, the report can focus on the Estate's annual change and its longer-term performance.

Figure 1 Components of the Model Estate (by proportion of capital value)

Source: Carter Jonas



KEY EVENTS

2010

Carter Jonas creates the Model Estate

2012

Conversion of a small barn on Home Farm to D1 use (wedding/ conference) to diversify income

2013

Additional income stream of £9,000 per annum as a result of the introduction of a roof mounted solar PV scheme

2014

Tithe Barn converted from commercial to residential use;

25 hectares of arable farmland under geological investigation to determine the nature, quality and quantity of the underlying mineral resource

2015

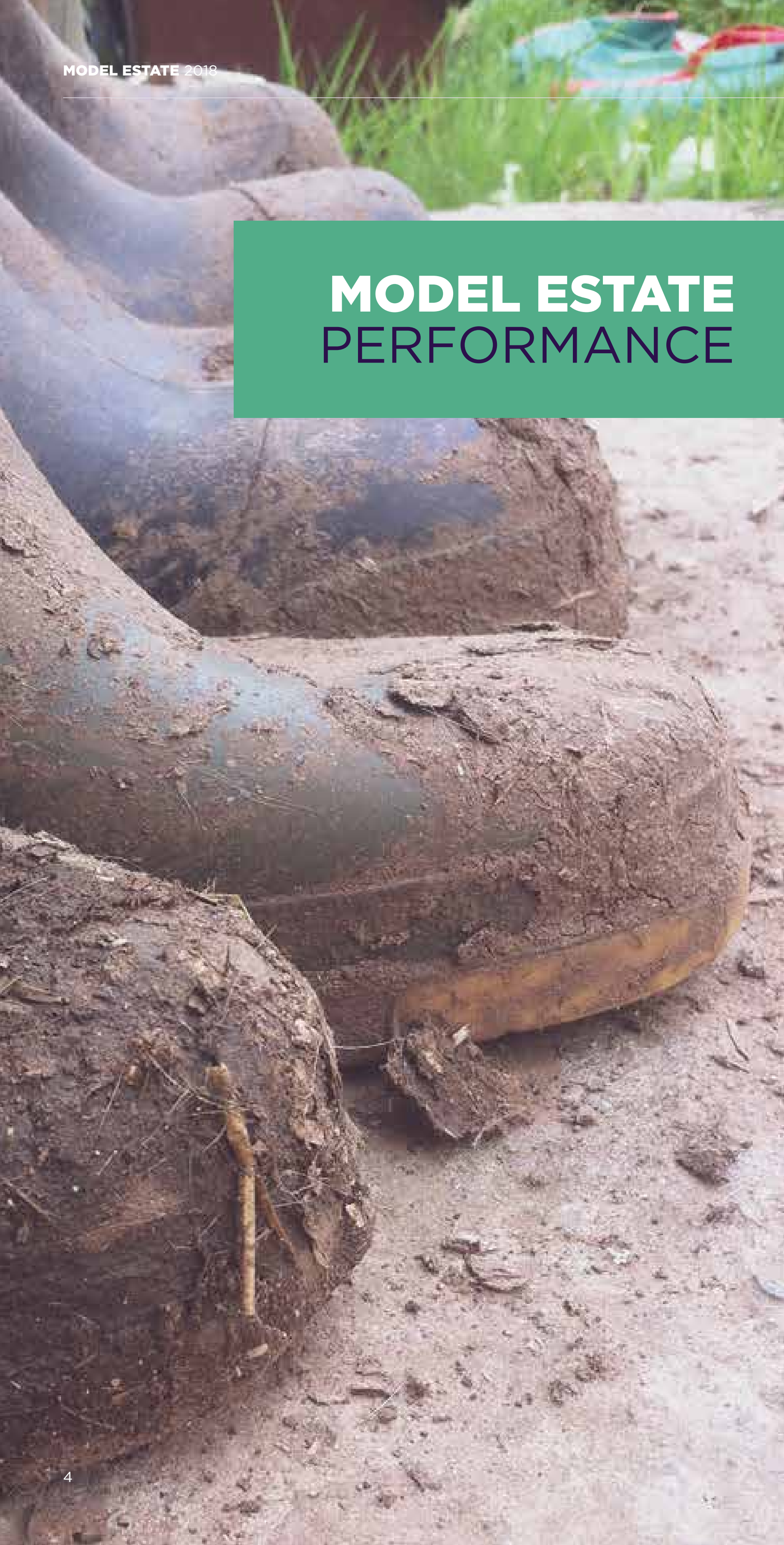
Reserved sporting rights were let, increasing the income and value of the syndicate shoot

2016

Addition of the Solar Farm in 2016 as a means to diversify income

2017

Strategic review undertaken to formulate key objectives and strategies as the UK negotiates its EU exit plan



MODEL ESTATE PERFORMANCE

The Model Estate was valued at £40.1 million as at December 2017, representing a fall of -1.5% from its 2016 level. Despite this reduction, it proved relatively resilient compared to the -8.2% fall in average UK agricultural land values over the same time period.

This change in tone had an impact on the **in-hand farms** element which decreased by -1.8% during 2017, a very similar level to the -1.6% reduction in 2016. The depreciation was primarily due to the decline in land values, as the value of the **Manor House** only fell very slightly (by £15,000). That said, the Manor House did not negatively impact on the total Estate value as much as some of the other components. Indeed, when including the Manor House, performance of the Estate actually improved to -1.5% compared to -1.7% when it was excluded.

The value of the **let farms** component also declined, by -2.3% during the year. This figure however disguises a range of values where cottages increased, between 2.0-3.0% in capital value, while arable land values declined by 2.7%. Pasture land values also fell between 3.0-3.5% as demand continues to become increasingly sporadic.

The **residential** portfolio was the only component showing growth, increasing in value by 2.6%, with rental increases also evident. Growth mirrors that of the housing market, which illustrates that on a national basis, prices are on a slight upward trajectory. Regional differences remain acute, with London in negative territory while certain provinces, such as the North West and Wales, have reported strong price growth. The Model Estate's residential portfolio remains fully occupied, reflecting a strengthening of demand for rural properties with reasonable access to major towns.

Values remained static in the **commercial** element of the Estate, a sharp contrast to the significant 41.8% increase in 2016 following a comprehensive management and re-gearing exercise. The wider regional commercial property market, and particularly Cathedral Cities, continued to witness steady capital growth, with demand for prime product remaining strong throughout 2017. The Model Estate's commercial portfolio continues to be fully let, reinforcing the resilient demand profile for good quality, correctly priced accommodation.

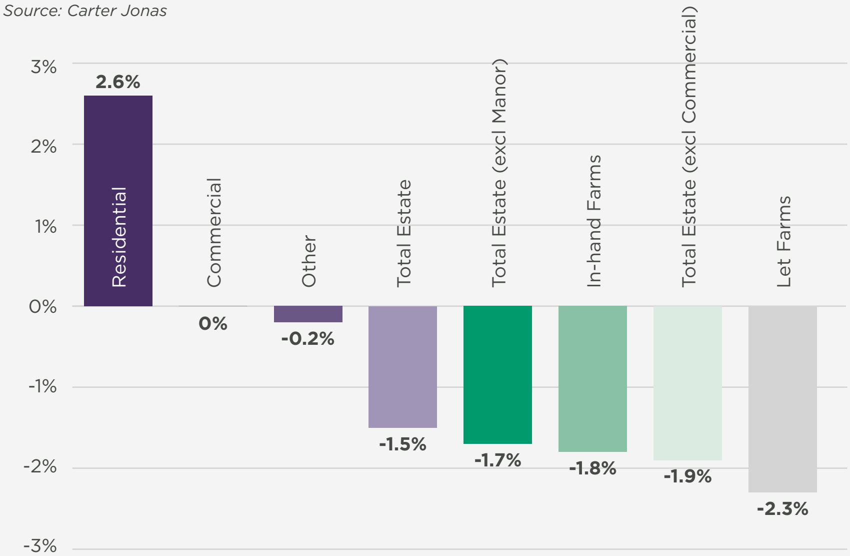
The value of the **'other'** element of the Model Estate remained broadly flat, falling by just -0.2% during 2017.

Despite the fall in capital value in 2017, it must be noted that agricultural land is principally characterised as a long-term investment and a one year timescale does not provide a true reflection of the asset class. The five-year annualised growth of the Estate is 5.6% per annum, which increases to 6.4% and 6.6% when the commercial element and Manor House respectively are excluded. This is comparable to the commercial property sector and superior to the residential equivalent.

While land has now undoubtedly entered a new phase in the property cycle and has a number of headwinds to contend, it will continue to remain attractive to a diverse investor pool not least due to its counter cyclical nature and its attractive tax regime.

Figure 2 2017 Model Estate Performance

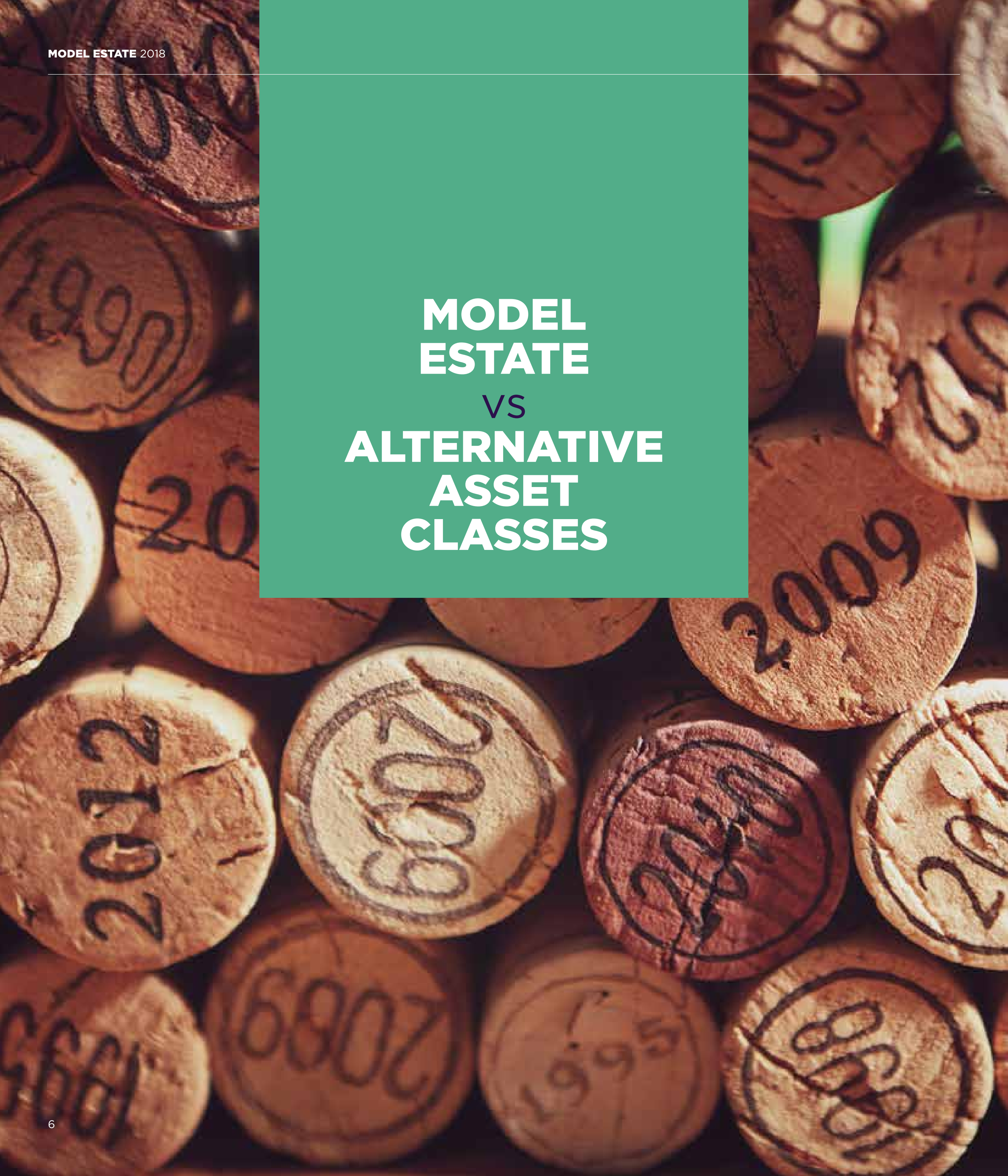
Source: Carter Jonas



PREPARING THE ESTATE FOR CHANGE

In order to counteract the impact of Brexit and the wider economy, the following **key objectives and opportunities** were agreed during the 2017 annual strategic review:

- Further conversion of agricultural buildings, taking advantage of relaxed development under Permitted Development Rights.
- Expand the Solar Farm to generate more income for the Estate.
- Explore further diversification options, e.g. minerals resource, battery storage.
- Review existing environmental schemes, taking advantage of speculative environmental initiatives following Brexit.
- Review the risks associated with the income and operation of the telecoms mast, following the implementation of the Electronic Communications Code 2017.



MODEL ESTATE
VS
ALTERNATIVE ASSET CLASSES

GOLD

9.3%

Gold prices continue their upward trend, taking **pole position** in this year's alternative asset class rankings. Increasing by 9.3% during 2017 to reach US$1,264 per troy ounce, prices have now matched the previous peak reached in 2013. However despite this growth, over the longer-term the price of gold remains below its 2011 peak.

EQUITIES

9.0%

The FTSE All-Share index increased by 9.0% during 2017 and was at its highest value since records began. The index closed at 4,222 points at the end of the year and ranked in **second** position. The FTSE indices have largely been influenced by the currency markets, which gained some value throughout 2017 despite initially falling in the aftermath of the EU referendum vote in 2016. While equities remained at an all-time high at the end of 2017, the start of 2018 has witnessed some decline of the index, Brexit and non-Brexit related, thus continuing to remain a volatile asset class.

MSCI RESIDENTIAL

7.2%

The value of residential property in the UK increased by 7.2% during 2017, exceeding growth recorded over the last five years, taking **third** place in this year's ranking. Regional disparities are evident, with London once again hampering overall house price growth, although strong price increases in key 'commuter' locations outside London have kept growth levels robust. Affordability is a key driver, and as real earnings outstrip inflation, house price growth could remain subdued over the coming year.

MSCI COMMERCIAL

6.4%

Commercial property in the UK rebounded in 2017, with values recording a 6.4% increase during the year, up from -1.1% in 2016 and up into **fourth** place. Although capital values across the three core sectors expanded in 2017, industrial property soared ahead, with capital growth of 13.9% during the period. This was followed by the office and retail sectors, each recording 3.6% and 1.6% growth respectively.

FINE WINE

5.4%

While still increasing in value by 5.4%, price growth of fine wines noticeably slowed during 2017, falling from first to **fifth** place in this year's rankings. Currency volatility was a large contributor, with the fall in Sterling against the Euro and US Dollar during 2016 resulting is a larger uplift on pricing. Sterling did recover somewhat in 2017, particularly toward the end of the year, ultimately slowing price growth.

CLASSIC CARS

1.6%

Performance of the classic cars market remains positive, ranking **sixth** overall, despite price growth during 2017 being the lowest since 2006. The sale of some high value assets during the year kept the market buoyant and the longer-term price growth, which continues to outstrip that of the other asset classes, remains desirable for car collectors and investors alike.

Figure 3 2017 Alternative Asset Class Performance

Source: Carter Jonas

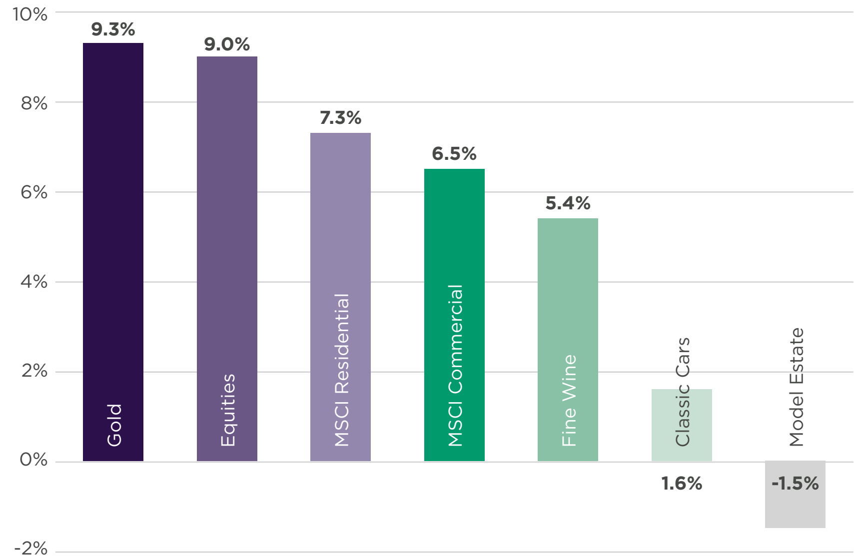
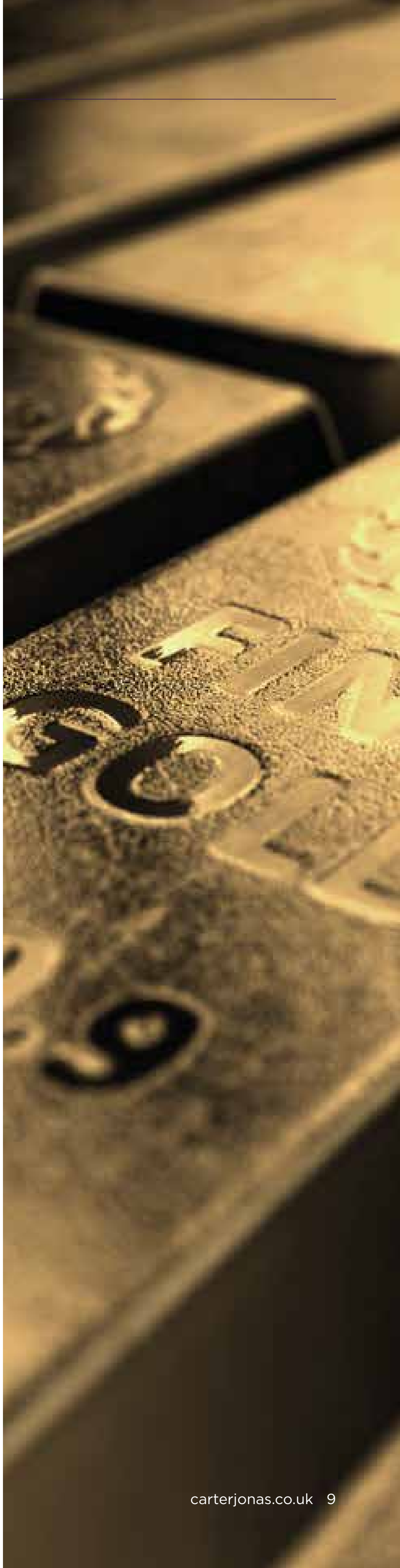


Figure 4 Long Term Alternative Asset Class Performance

Source: Carter Jonas, Liv-ex, MSCI, HAGI, London Stock Exchange



GETTING BREXIT READY

While the topic of Brexit has brought about some uncertainty, agricultural owners and investors have benefited from some of the positive developments that have arisen so far during the Brexit negotiation period. These include short-term increases in support payments as a consequence of the weaker currency markets and the opportunity to be involved in feeding into the UK's new Agricultural Bill post-Brexit.

The case for investing in agriculture in 2018 remains compelling despite the uncertainties. In a historical context, the agricultural sector has remained resilient during uncertain times, more so than other property sectors in the UK, and its ability to house a diverse set of services is, and will remain, an attraction for investors. However, the sector needs to get Brexit ready now, ahead of the UK's official departure in March 2019.

These are our views on how to prepare your land holdings:

1

PLANNING FOR SUCCESSION

The transition of passing a farming business onto its next rightful owner is essential for all farming businesses, and with Brexit approaching, succession planning discussions need to be prioritised. This may involve current owners mentoring the younger generation, enabling a smooth transition once the business is eventually handed over. Facilitating this now rather than later, and proactively reorganising businesses to perhaps reduce scale could be the key to withstanding Brexit related changes. The transition period after the official exit in March 2019 is an opportunity for businesses to put these plans into action, taking advantage of the potential tax, planning and support payment regulations, to name but a few, changes that may occur.

2

INNOVATE FOR THE FUTURE

Brexit changes will undoubtedly affect the profitability of farming businesses. With change expected within the next two years, now is the time for businesses to enforce plans, which focus on innovative methods to counteract the 'Brexit effect'. These can include, but are not limited to, technologies to adapt farming processes and better methods to ascertain the health of livestock and soils. While such methods will have financial setbacks, in the medium- to long-term farming businesses will benefit from this investment, seeing an improvement in the productivity and profitability of their business.

3

DIVERSIFICATION IS KEY

Agricultural property lends itself to a host of diversification opportunities. This could be in the form of alternative uses, with land allocated for residential or commercial use, or being used to house renewable energy facilities or minerals. Favourable tax incentives are also offered to those developing land, by way of rollover relief when acquiring new properties – an incentive not offered to other property sectors in the UK. Diversifying enables investors to increase their revenue streams, whilst not heavily relying on the market to continue performing favourably.

38 OFFICES ACROSS THE COUNTRY, INCLUDING 13 IN CENTRAL LONDON

- Bangor
- Basingstoke
- Bath
- Birmingham
- Boroughbridge
- Cambridge South
- Cambridge North
- Cambridge Central
- Edinburgh
- Harrogate
- Kendal
- Leeds
- Marlborough
- Newbury
- Northampton
- Oxford
- Peterborough
- Shrewsbury
- Suffolk
- Taunton
- Truro
- Winchester
- York

- National HQ One Chapel Place
- Barnes
- Barnes Village
- Fulham Bishop's Park
- Fulham Parsons Green
- Holland Park & Notting Hill
- Hyde Park & Bayswater
- Knightsbridge & Chelsea
- Marylebone & Regent's Park
- Mayfair & St James's
- S. Kensington & Earl's Court
- Wandsworth
- Waterloo

ABOUT CARTER JONAS

Carter Jonas LLP is a leading UK property consultancy working across commercial property, residential sales and lettings, rural, planning, development and national infrastructure. Supported by a national network of 38 offices and 700 property professionals, our commercial team is renowned for their quality of service, expertise and the **simply better advice** they offer their clients.

Find out more at **carterjonas.co.uk/farm-consultants**

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