

2016

**THE NOTIONAL ESTATE
PERFORMANCE REVIEW
AND COMPARISON**

**MODEL
ESTATE**

Carter Jonas

WELCOME

WELCOME TO OUR LATEST RESEARCH REPORT ON THE MODEL ESTATE. ALL FINDINGS IN THIS REPORT ARE BASED ON VALUATIONS UNDERTAKEN ON 31 DECEMBER 2015. THE MODEL ESTATE RANKED FOURTH OUT OF THE EIGHT ASSET CLASSES ANALYSED WITH ALL RISING AND FALLING. THE ESTATE WAS VALUED AT £38.6 MILLION ON 31 DECEMBER, A 4.7% INCREASE FROM ITS 2014 LEVEL.

With the date of the EU referendum now set on 23 June 2016, we have also included an article on the implications of a BREXIT on agricultural land. As the debate unfolds, it is a unique time and poses a critical turning point in the UK and agricultural land's future.

We hope that you find our report thought provoking and by placing rural property into context with other asset classes the advantages that can be secured through proactive management are highlighted.

As always we would welcome your comments and if you have any queries please don't hesitate to get in touch.



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BY PLACING RURAL PROPERTY INTO CONTEXT WITH OTHER ASSET CLASSES THE ADVANTAGES THAT CAN BE SECURED THROUGH PROACTIVE MANAGEMENT ARE HIGHLIGHTED.

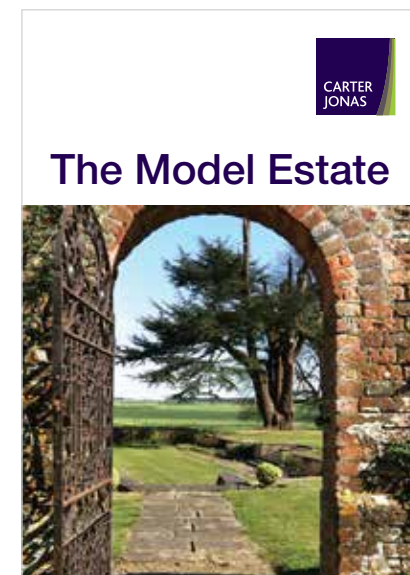
ABOUT THE MODEL ESTATE

The Model Estate is a theoretical agricultural estate which Carter Jonas formed in 2010 in order to monitor and compare the performance of agricultural land against a variety of asset classes; residential and commercial property, equities, gold, fine wine and classic cars. The Estate comprises 3,168 acres which includes a combination of let and in-hand farms, a commercial and residential portfolio, a telecoms mast and sporting rights. It is located within the geographical triangle bounded by the M4, M40 and M5 motorways.

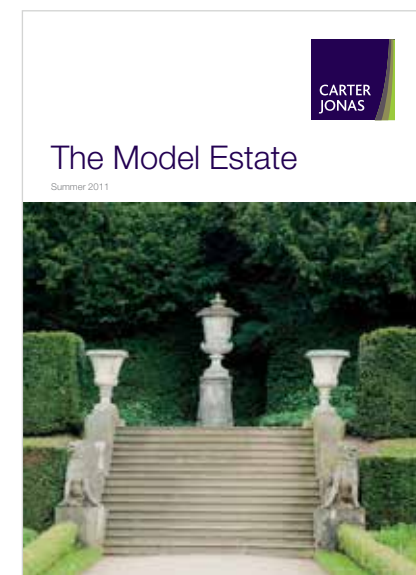
Why was the Model Estate formed?

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, similarly to the annual reviews we produce for all estates under our management. By recording the data since 2010 our report not only details the performance of the Estate in the previous year but also focuses upon its longer-term returns.

2010



2011



32,600
copies printed

125
hours of research

4,356
copies downloaded
from our website

2012



2014



2015



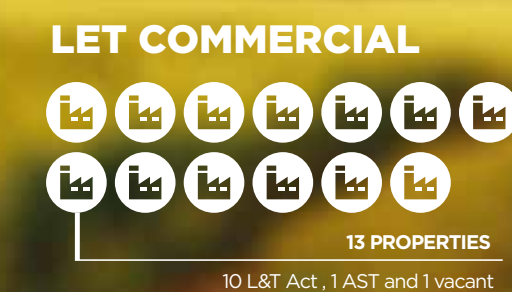
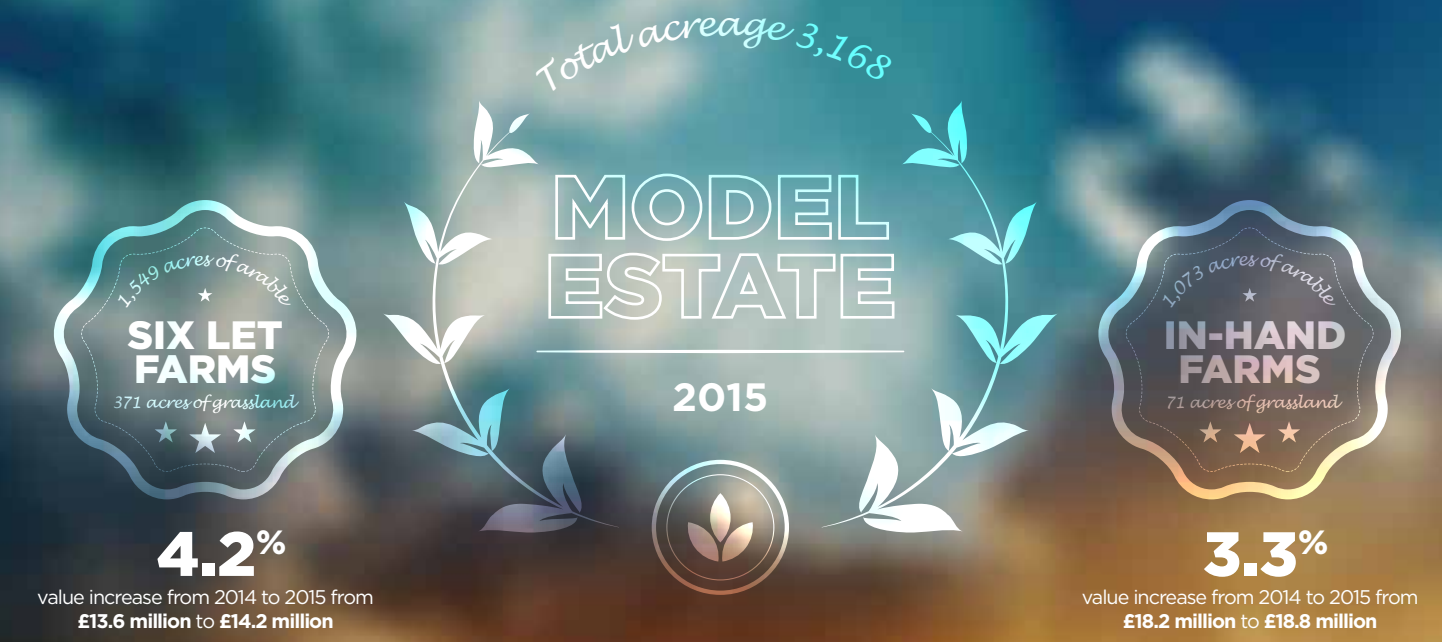
COMPONENTS OF THE MODEL ESTATE

Sector	Description	2015 values	2014 values	Change between 2015 and 2014
Let Farms	1,549 acres of arable, 371 acres of grassland and 14 acres of tracks 4 are let on FBT's and 2 on AHA's 3 farmhouses (1 FBT ¹ and 2 AHA ²) and 4 cottages (1 Ag Protected ³ , 3 AST ⁴)	£14.2 million	£13.6 million	4.2%
In-hand Farms	1,073 acres of arable, 71 acres of grassland, 80 acres of woodland and 10 acres of tracks Grade II* manor house and farmhouse	£18.8 million	£18.2 million	3.3%
Let Residential	7 houses (5 AST, 1 Ag Protected and 1 Rent Act)	£2.7 million	£2.2 million	20.7%
Let Commercial	13 properties (10 L&T Act ⁵ , 1 AST and 1 vacant)	£2.7 million	£2.7 million	0.0%
Other Income	Telecom mast, a syndicate shoot and fishing rights	£202,740	£117,500	72.5%
Total Value		£38.6 million	£36.9 million	4.7%

¹ Farm Business Tenancy
² Agriculture Holdings Act 1986
³ Rent (Agriculture) Act 1976

⁴ Assured Shorthold Tenancy
⁵ Landlord and Tenant Act (1954)

Sources:
 • Residential and Commercial - IPD (the most recent quarterly and monthly indices were used to produce a 2015 year end estimate)
 • Fine Wine - Live-Ex.com
 • Antiques - Furniture Index from the Antique Collectors Club Index
 • Gold - World Bank
 • Classic Cars - HAGI



MODEL ESTATE PERFORMANCE

The Model Estate was valued at £38.6 million as at December 2015, a 4.7% increase from 2014.

The return was primarily due to 20.7% increase in the value of the residential portfolio, illustrated in Figure 1, which followed an impressive return of 19.7% in 2014. This strong return was entirely due to capital growth as despite rent reviews occurring during the year for six of the seven residential properties on the estate, rental levels remained unchanged. Despite cooling headwinds evident across Central London, the country residential market remains strong although supply, across both sales and lettings markets, is scarce. Sentiment, particularly within the rental market, is forecast to hold firm in 2016, as scarcity of supply coupled with a nervousness regarding future house price growth and general affordability deter many young buyers from climbing aboard the property ladder.

The let farms element of the Model Estate produced a total return of 4.2% in 2015, in comparison with 24.3% in 2014. Market rents have plateaued during the year due to low commodity prices. While demand remains for tenanted land, farmers are less likely to pay premium prices as net farm incomes, profitability and the serviceability of debt continue to be squeezed.

The 4.2% let farms return was driven by capital growth, which has slowed during 2015 in line with the overall land market. A slowdown in the rate of value increase has been witnessed since summer 2015 as increasing numbers of commentators have called the peak of the market. Demand, does however, remain evident but is increasingly focused towards large blocks of prime agricultural land, with a notable fall in activity for smaller and secondary quality parcels of land. This divergence is forecast to continue into 2016.

The in-hand element of the estate witnessed a 3.8% total return in 2015, mirroring the slowing rate of capital growth witnessed within the let farms element and across the national land market. The manor house once again reduced performance to 3.3%, as demand for large country houses and associated grounds remains intermittent and sparse. This trend is forecast to continue with the introduction of increased stamp duty land tax from 1 April 2016.

The "other" element of the Model Estate does not usually gain much attention in the analysis process. However, this year the landlord has decided to let the reserved sporting rights on the let farms, whilst also reviewing those over the in-hand land. This has increased the value of the sporting rights to £130,240 from a

2014 level of £45,000 and consequently produced a total return of 72.5%. Despite this increase, the proportion which the other sector accounted rose from 0.3% to 0.5% of the entire Model Estate.

Overall the 2015 total return of the Model Estate was 4.7%, lower than the 13.1% achieved in 2014. Despite this reduction, the variances evident reinforce the benefits of owning a "mixed-use" and diverse asset as illustrated in Figure 2. While agricultural land has proved itself as a star performer since 2009, it remains counter-cyclical. It witnessed exceptional growth levels during the last recession at a time when the commercial and residential property asset classes and equities saw double digit reductions in value. Land values marched onwards from 2010, driven by increasing profitability levels which propelled the market ever upwards. Restrained commodity prices and straining farm profitability is now evident and the overall tone of the market has cooled.

That said, land remains a safe haven and very profitable if run and managed in the correct structure. Medium-term commodity prices are positive and the equilibrium between demand outweighing supply is forecast to continue. Agricultural land will remain an attractive and profitable asset class over the long-term.

2015 PERFORMANCE OVERVIEW

4.7% 4.7% the 2015 Model Estate's total return. This rose to 5.1% when the manor house was excluded and 5.6% when the commercial sector was removed

72.5% 72.5% the total return of the "other" element of the Model Estate driven by the decision to let the sporting rights of both the in-hand and let land

20.7% Performance was driven by a 20.7% total return from the residential portfolio

2nd 2nd position the Model Estate's 3 year annualised total return amongst seven other asset classes

Figure 1
The Model Estate Component Performance

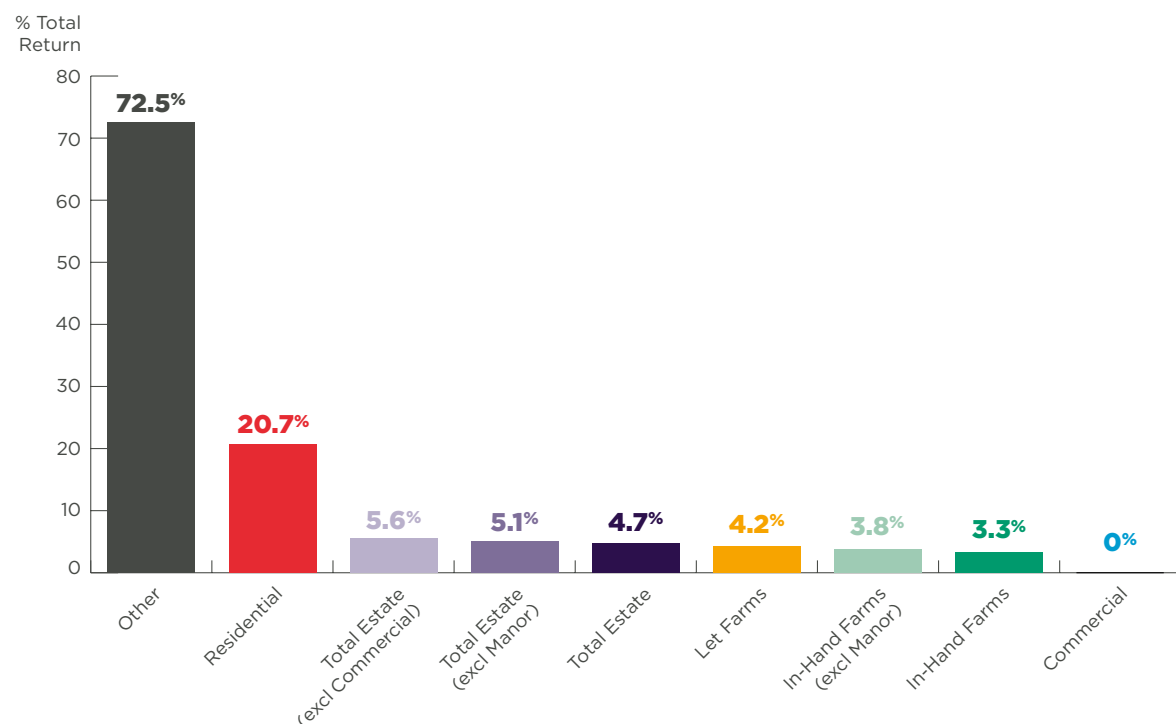
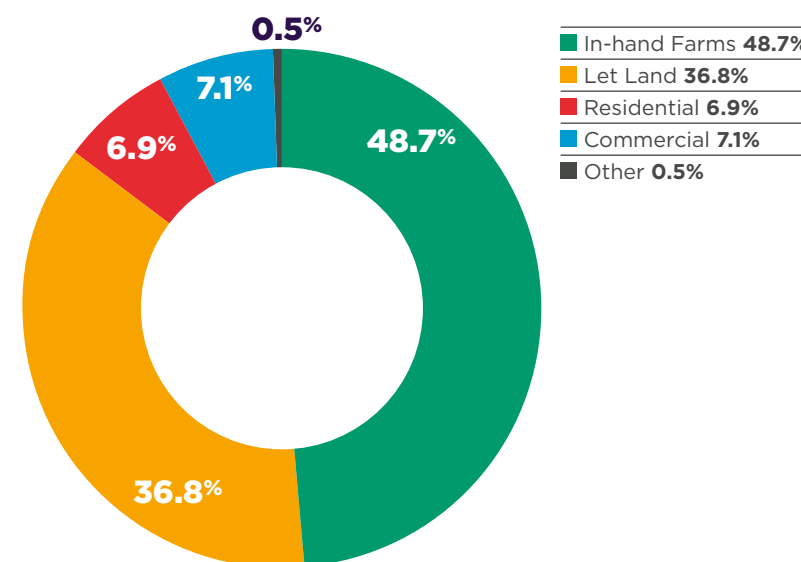


Figure 2
2015 Components of the Model Estate



“**LAND REMAINS A SAFE HAVEN AND VERY PROFITABLE IF RUN AND MANAGED IN THE CORRECT STRUCTURE.**”

MODEL ESTATE VS ASSET CLASSES

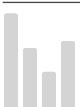
ALL SECTORS RISE AND FALL. THE MODEL ESTATE'S RANK SLIPPED TO FOURTH OF THE EIGHT ASSET CLASSES ANALYSED IN 2015.



Classic cars, once again, produced the highest 1 year total return of 16.6%, illustrated in Figure 3. Despite regaining the pole position, this was notably lower than the 2014 level of 31.2%. While the asset class clearly remains exceptionally well performing, the HAGI Top Index reported an annual fall of 2.5% to January 2016 and the HAGI P Index (which measures the rare collector's Porsche automobile market) fell 4.5% over the same time period. These falls, whilst moderate, indicate a cooling of investor confidence to pay premium prices, and even in the most popular and glamorous sectors, investors remain cost conscious.



Fine wine saw an improvement in performance in 2015, producing a return of 0.6%. Over the last year, the market has remained flat although stable in contrast to its fall of 7.7% in 2014. The sector has suffered from poor performance since 2011 and proved popular during the recession, particularly by Chinese and Far Eastern investors, as a hedge against traditional property sectors.



Equities produced a total return of -4.7% in 2015, sixth of eight asset classes analysed within the report. The volatility of the asset class is evident when reviewing the longer-term performance of the asset class, -2.1% for the 2 year annualised returns, 2.9%, 2.2% and 6.2% for the three, five and seven year annualised periods respectively. The growing uncertainty and weakening of the global markets and the timing of the EU referendum is likely to depress growth in 2016.



Antiques produced a total return of -4.5% in 2015. The year started with a revival in sale activity although demand remained restrained. The internet has, perversely, proved to be an unexpected benefit to the sector more recently and boosted activity in dealers' websites and portals for middle and lower-quality antique furniture.



Gold recorded the lowest total return figure of -9.1% for the third consecutive year of all eight asset classes recorded, in sharp contrast to its pole position recorded in the first Model Estate report in 2009. Its volatile history is clearly evident, with only the 7 year annualised figure recording a positive figure, of 3.9%, of all the time periods included within this report.



The UK's **residential sector** produced a total return of 9.5% that was driven by the lower priced affordable outer London boroughs (e.g. Barking and Dagenham, Hillingdon and Enfield) rather than Prime Central London where values have begun to fall. The Eastern and South Eastern regions have led the way in terms of house price growth in 2015, with the Midlands and the North lagging somewhat behind. The prime regional housing market including the cathedral cities and towns of Oxford, Cambridge, Bath and Harrogate continue to perform well as demand for city centre properties achieve the highest premium.



The UK's **commercial sector** recorded a 7.2% return driven from continuing capital increases in London by rental value growth as yields have reached an all-time low. Emerging parts of London including Victoria, Battersea and Stratford have performed particularly well. The regional CBD markets performed strongly in 2015, particularly Birmingham and Manchester, and although there is an expectation of further rental growth in 2016, limited development activity and a lack of good quality office stock may restrain the extent to which this is witnessed.



Figure 3
Asset Class Total Return Performance



6 IPD Residential sector
7 IPD Commercial sector

LONGER TERM ANALYSIS

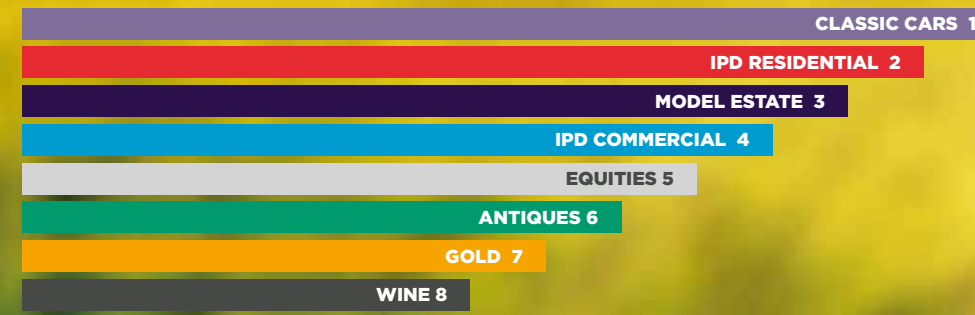
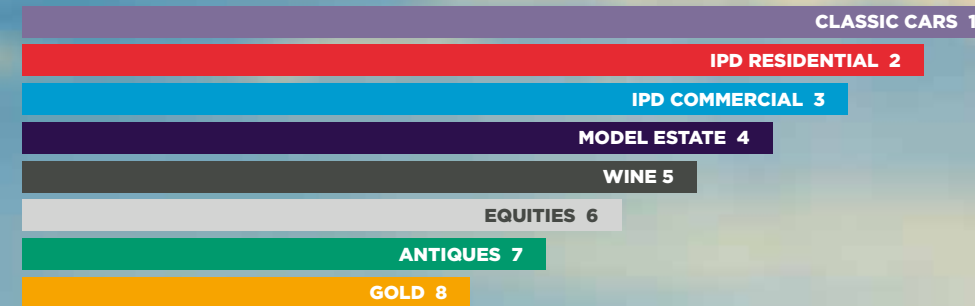
It is easy to focus upon the short-term performance of any asset class. However, one of the key attributes of agricultural land is its counter-cyclical nature.

The Model Estate's three year annualised return produced an impressive 8.1% per annum. This rose to 9.5% when the manor house was excluded and 10.4% when the commercial element was removed. This placed the Model Estate in second position, to classic cars, amongst the basket of asset classes analysed.

Over all time periods, the Model Estate (excluding the commercial element) has maintained a strong position in comparison with the alternative asset classes, ranking third of eight within both the 5 and 7 year annualised rankings.

While the Model Estate is ranked fourth in the 2015 ranking it is by no means least. Along with stability in terms of performance, a favourable tax regime reinforces the attractiveness of the sector and confirms its position as an alternative asset class to both residential and commercial property and the more specialist, and inherently high risk, sectors.

“ OVER ALL TIME PERIODS, THE MODEL ESTATE HAS MAINTAINED A STRONG POSITION IN COMPARISON WITH THE ALTERNATIVE ASSET CLASSES ”





TO BE OR NOT TO BE IN THE EU? THAT IS THE QUESTION



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Perhaps we will wake up soon and find that the referendum on our European Union (EU) membership was merely a bad dream with a Shakespearean twist in the tail. However the great English Bard is someone who would sit comfortably around the table with the old fashioned euro sceptics who have been holding their party and now the country to ransom for many years.

Ever since our entry to the European Economic Community in 1975 the Tories have questioned why we were lead into the clutches of Europe threatening our 'Island Status' when Europe is shifting inexorably into a Federal State which is high on the agenda in Brussels/Strasbourg. I think the UK and to some extent other regions within the EU are not wedded to the concept and perhaps the desire to leave will strike a chord with others?

As always timing is the key to any debate. Having offered a referendum in the Tory party manifesto as a brake on the growth of the UKIP vote, and with little prospect of anything but a hung parliament, I doubt many thought there was a risk of it taking place. However, to everyone's surprise we ended up with a clear majority, which only reinforces politics can be difficult to predict, particularly for the pollsters!!

At the time of writing, David Cameron has just returned from Europe with a deal around the four areas he felt needed to be renegotiated with the following outcomes:

- **Economic Governance** - a vague promise has been agreed to "coexistence between two different perspectives"
- **Competitiveness** -no real proposals as to how there will be a stimulus for new jobs and cutting regulation
- **Immigration** - The UK has negotiated a brake on benefits for seven years but this does not come into force before December 2017. Child benefits paid abroad will also be linked to the cost of living in the migrant's own country from 2020
- **Sovereignty** - the UK is no longer committed to 'further political integration in the EU' and the reference to an ever closer union does not apply

In essence the other 27 members have acknowledged the necessity of the UK being able to claim a 'victory' in the negotiations but it is difficult to see how tangible the outcome has been and whether it is sufficient to convince the

public vote. There were never any measures set out before negotiations started and an honest assessment of the deal is not possible. The lack of clarity is likely to become the key feature over the weeks ahead and I cannot see how either side will be able to claim victory based upon the arguments alone. In reality the issues are likely to be too close to call and it is impossible to be definitive on the effect that a BREXIT will have upon the UK.

So what will be the effect on the Model Estate in this time of great uncertainty? When you consider the composition of the Estate, every property sector is represented and the effect will be different across the board.

There is a fixation in the rural property sector on how the Common Agriculture Policy (CAP) will look after an exit and that the CAP is the sole area that needs to be considered. This is very far from the truth. As far as the CAP is concerned it is felt that subsidies are likely to be reduced, which will affect rents for both the Agricultural Holdings Act and Farm Business Tenancies. This may result in capital values falling slightly, but best in class and well-located land will continue to increase in value. Regular reference is made to New Zealand which suffered from withdrawal of support, although the fundamental issues are different and an ability to recover from the loss of subsidy would be short lived for the UK.

As far as the residential and commercial sectors are concerned, consumer confidence is the pre-requisite of an improving market with higher rental and capital values. BREXIT has already shown itself to be a live issue, with the value of the pound falling on the date the referendum was announced. It is likely that rents/values will ease back in the short-term and history would tell us that the market is quick to settle after a change in circumstances.

The UK is the fifth largest economy in the world and trades effectively inside and outside the EU. This will not change in the short or long term. The cost of our access to the EU single market is likely to increase if we leave. Any market has a cost and, in the case of the EU, we would no longer have a voice, yet we would still be subject to the rules and regulations which apply to the trading block.

Perhaps the biggest threat will be how London as a major financial and service centre is viewed if we leave. The reason London is held in such high regard is not because we are in the EU but because we have the expertise and heritage which will still be available to those who require it. Much has been made of the financial sector moving to Germany but our pre-eminent position will not be easily dislodged.

Economically, there is life whichever way we jump and very little is likely to change for the person on the street.

Sovereignty and migration/immigration are two key areas where a major event or faux pas could affect the result even at the last moment.

On the sovereignty issue there is probably a split down the age profile, with the 50+ age group favouring life outside the EU and the younger age group being more predisposed to staying in.

When the spectre of immigration is raised the temperature tends to rise considerably and the issues can lead to a polarisation of views. Very rarely is a balanced argument followed but it is an issue which everyone seems to have a tale to tell and a strongly held opinion.

Migration is seen as a negative, with migrants only here to claim benefits and take jobs and houses from the locals. However, the fact is that migrants fill many important skilled/unskilled jobs and support many public services. Economic success throughout the World requires a flexible labour force and the ability to use labour from within the EU is crucial.



WHEN YOU CONSIDER THE COMPOSITION OF THE ESTATE, EVERY PROPERTY SECTOR IS REPRESENTED AND THE EFFECT WILL BE DIFFERENT ACROSS THE BOARD.

The other aspect typified by the issues in Calais and Turkey have a far more sinister undertone but again we need to look at both sides of the argument. As the UK is a leading economic power, we should be prepared to shoulder the responsibility and provide humanitarian aid in times of crisis. The level of debate should ensure we consider the facts rather than a knee jerk reaction.

In essence, the real debate has only just begun and I hope the parties for and against remaining in the EU argue from a position of informed and reasoned fact, rather than pre-conceived opinions and mantra.

I believe everyone should be open to listening to the views of the other side and they then enter the ballot box knowing more and make an informed decision. Early indications are that both arguments are finely balanced and, with a third of the electorate yet to decide, there is much to play for.

36 OFFICES ACROSS THE COUNTRY, INCLUDING 12 IN CENTRAL LONDON



- Bangor
- Basingstoke
- Bath
- Boroughbridge
- Bury St Edmunds
- Cambridge South
- Cambridge North
- Cambridge Central
- Cambridge - Sawston
- Edinburgh
- Harrogate
- Kendal
- Leeds
- Marlborough
- Newbury
- Newbury - Sutton Griffin
- Northampton
- Oxford
- Peterborough
- Shrewsbury
- Suffolk
- Wells
- Winchester
- York

- National HQ One Chapel Place
- Barnes
- Barnes Village
- Fulham Bishops Park
- Fulham Parsons Green
- Holland Park & Notting Hill

- Hyde Park & Bayswater
- Knightsbridge & Chelsea
- Marylebone & Regent's Park
- Mayfair & St James's
- Wandsworth Common
- Waterloo

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