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23 December 2016

Caledonian Trust PLC

(The "Company" or the "Group")

Audited Results for the year ended 30 June 2016

Caledonian Trust PLC, the Edinburgh-based property investment holding and development company, announces its audited results for the year ended 30 June 2016.

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CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax profit of £105,000 in the year to 30 June 2016 compared with a profit of £565,000 last year. The profit per share was 0.89p and the NAV per share was 152.88p compared with a profit of 4.79p and 151.99p respectively last year.

Income from rent and service charges was £351,000 compared with £334,000 last year. One investment property was sold at a gain and the remaining property investment value increased during the year. Profit on the sale of development properties was £47,000 compared with £168,000 last year. Other operating income was £15,000 compared with £28,000 last year. Administrative expenses were £635,000 compared with £726,000 last year. Net interest payable was £22,000 compared with £116,000 last year, largely reflecting the reduced margin payable on the borrowings. The average base rate for the year was 0.5%.

Review of Activities

The Group's investment business continues virtually unchanged. In October 2015 we sold our garage in Gloucester Lane to an adjoining proprietor and realised a substantial premium to book value. We continue to hold two high yielding retail parades and some central Edinburgh garage investments.

The Group's management resources are almost wholly engaged in property development, including development necessary to secure consents, and on the provision of infrastructure for development plots.

Last year I reported that, due to the poor market conditions, in the year to September 2015 - prices in Scotland fell 0.5% - and the prospect of a deterioration in these conditions, we had continued to postpone all of our larger schemes. This time last year Scottish market conditions and prospects appeared to be improving considerably, but in the first half of 2016 house prices reported by the Registers of Scotland in Scotland fell 8.4% in Q1 and 2.3% in Q2.

The continuing deterioration in the Scottish economy, highlighted by the shrinkage of the oil industry, and reinforced by the uncertainties of the outcome of the "Brexit" vote were almost certainly major influences at that time. Thus, late 2015 and early 2016 did not seem a propitious time to undertake major speculative development. In Q3 the Registers of Scotland report that average Scottish prices rose 0.6% and by 5.7% in Edinburgh with higher rises in Midlothian and East Lothian. As is discussed later, market conditions and prospects have again improved and, in those areas where market conditions appear propitious, we will expand our development activity and, in parallel, increase our marketing of house plots.

Our largest property is St Margaret's House, London Road, Edinburgh, a 92,000ft^2 1970s multi-storey building on the A1 about one mile east of the Parliament and Princes Street, and adjacent to Meadowbank Stadium. Pending

redevelopment it has been let since November 2010 at a nominal rent to a charity, the Edinburgh Palette, who have reconfigured and sub-let all the space to over 200 "artists" and "artisans" and "galleries". Tenant turnover is low and there is a long "waiting list" attracted to this high-quality space by the subsidised rent, the excellent management and the empathetic culture. The subsidised rent has assisted the tenant to effect substantial repairs and improvements, to build up reserves and to establish their internationally recognised brand.

In view of Edinburgh Palette's much improved circumstances we agreed a large rent increase phased over a year to March 2017. To mitigate possible hardship we are discussing the provision of specific measures to protect the Edinburgh Palette's important charitable, cultural and social contribution. We expect to be able to agree a further phased increase in rent. The current level of subsidy is not necessary for most of the charity's purposes, and, indeed, a transition, carefully modulated to ensure possible deleterious effects are mitigated, will allow the charity to develop into a stronger organisation more able to support its purposes.

The rent that will accrue to the Group by March 2017 is significantly less than £2 per ft^2 of occupied space. For sub-lets of $100ft^2$ (one "window" in Edinburgh Palette terms) this represents less than £5/week of rent: in artists' terms less than a glass of wine.

One hundred and twenty of the parking spaces at St Margaret's are let to the Registers, our immediate neighbours, at £1.20 each per week day. Parking is an increasingly valuable resource in Edinburgh and I am confident that, notwithstanding the history of below market pricing, a rent increase will be agreed. We hold a consent for a 'digital' advertising hoarding with a rental value of up to £35,000 but the site establishment costs and difficulties are delaying a letting. The sum of the market rents at St Margaret's is about £500,000 and the measures being taken will allow a progressive move to a more realistic level.

Improved rents will start to compensate for the high cost of holding the building and the long and very expensive process of gaining consent in September 2011, based on our application in July 2009, for Planning Permission in Principle (PPP) for a $231,000ft^2$ mixed-use development of residential and/or student accommodation, a hotel, offices and other commercial space together with parking for 225 cars. Unfortunately, the poor and constantly-changing market conditions since 2011 precluded the design of specific proposals. Accordingly, we applied for a renewal of the PPP in May 2014 for which we had to update all the many technical reports and undertake several new ones: all a lengthy and expensive process. The consent was renewed in June 2015, subject to a Section 75 Agreement signed in September 2016.

I commented last year that the redevelopment prospects for St Margaret's had improved very considerably. Since then site values for flats for sale, for flats for the Private Rented Sector and for student accommodation have continued to rise rapidly as an increasing demand remains unsatisfied. The City of Edinburgh Council ("CEC") perceives there is an acute shortage of a wide range of accommodation, particularly near the city centre. Because of a shortage of sites in the city centre and a desire by the University to diversify their holdings from south of Princes Street areas north and east of Princes Street have become more valuable. The benefits of this change in the market have been reinforced by CEC's proposal to redevelop the adjacent Meadowbank Stadium to provide a new smaller modern sports facility and a large residential development of over $400,000ft^2$ of housing and further mixed use development.

The CEC have commissioned a review of the funding requirements and a cost appraisal, a study costing nearly £1m. The sports facility is reported to have a gross cost of circa £42m of which about £35m is expected to be realised by asset sales. The review which is due shortly will ascertain the extent of any shortfall, which is expected to be met out of central funds. The project is scheduled to be approved by the CEC early next year.

We continue to evaluate development options for St Margaret's. If part of the existing building were retained, a series of smaller developments, each of $40,000ft^2$ to $60,000ft^2$, could be built. Part of the site is ideal for an hotel, occupying the higher westerly "tower" with views to the Castle, Arthur's Seat, the City and the Forth estuary. A part of the site has also been assessed for private rented housing at the "higher market rent level", but valuations are lower than for other uses. The probable re-development of Meadowbank makes student accommodation much more attractive, given the central location with excellent bus routes, the adjacent Meadowbank sports facility, easy access to the Park and daytime bus services from the door to Old College and the nearby George Square every twelve minutes and to Queen Margaret University and Heriot Watt every half hour. Amongst many other possible office uses, the $231,000ft^2$ consent would be eminently suitable for any centralisation of Government offices, or for a large-scale relocation of "back offices" from London or the South East. Very neatly, a discount store could occupy a street-level frontage, complementing existing local stores and catering conveniently for the greatly enlarged resident population. Conditional on the outcome and the timing of the CEC's decision on Meadowbank, the Company intends either to develop or undertake a joint venture development of St Margaret's or, if suitable offers are made, to realise its value.

Since 2007 we have delayed the development of our other three sites in or near Edinburgh because of economic conditions. In 2015 I repeated the warning first given in my 2012 statement: "There is a tangible risk of a further fall in house prices. In these circumstances a large development of a block of flats or a number of houses requiring heavy infrastructure investment would result in an illiquid investment with very limited or nil profit margin:

accordingly, we continue to delay any major investment and only undertake small, low-investment, low-infrastructure projects. We will not commission any major development until market conditions improve." This view proved prescient as in the year to June 2016 Registers report that the average house price in Scotland fell by 2.3% and by a slightly smaller 1.4% in Edinburgh, because of falls of 5.0% in terraced houses and 0.9% in flats. However, in the most recent quarter, July – September 2016, Q3, post the EU Referendum, Scottish prices rose significantly and by 3.7%, compared to Q2. In consequence, Scottish prices, compared to September 2015 rose by 0.6% and by 5.7% in Edinburgh where flats rose a remarkable 8.0%. Clearly the Edinburgh market is improving markedly. Within this market new or fully refurbished flats, especially in better residential areas or within two miles of the city centre are gaining in price even more rapidly, according to agents' reports and other anecdotal evidence. The less insecure economic conditions and a marked improvement in this sector of the market now offers an attractive commercial opportunity which is available at a much reduced risk and of which we are starting to take advantage, subject to prudent risk assessment and funding availability.

We have increased development activity at Brunstane where, prior to the sale of four cottages, we owned five cottages, open ground to the south of the cottages, a large listed Georgian steading and two adjacent acres of land, all part of Brunstane Home Farm, which was in the Green Belt in east Edinburgh, but is just off the A1, and lies immediately adjacent to Brunstane railway station with services on the newly opened Borders Railway between Tweedbank and Edinburgh (seven minutes). Four years ago we commenced the extensive alterations to four listed Georgian, stone built, two-bedroom cottages together with some of the infrastructure necessary for the subsequent larger development which was completed two years ago. The end-terraced cottage sold then for nearly £250,000, approximately £300/ft^2, a high price for the area. A mid-terraced house, with a lower valuation, was sold two years ago for about 5% less. The second mid-terraced cottage sold in September 2015 and the end terraced cottage, abutting the steading, sold in 2016, a sale delayed until the completion of the extensive demolition immediately adjacent to it and by the partial reconstruction of that part of the stone built steading. Following these sales we have one cottage remaining at Brunstane.

On the open ground south of these cottages we secured consent in 2014 to construct two new semi-detached houses which, together with a mature wood to the west, completes a traditional farm courtyard. These two new houses, each 1,245ft^2 are of modern construction but with the elevations faced with natural stone. Earlier this year we gained consent to extend the easterly gable and add a conservatory to the west elevation, increasing the total size to 2,850ft^2. Work on the reconfigured development started in August and the houses will be completed shortly. We expect to market them early in the New Year at prices around £300/ft^2.

We have consent to convert the listed stone-built Georgian steading, to refurbish and extend a cottage attached to it and to form ten individually designed houses of various sizes comprising over 14648ft^2 in total. These houses have been extensively redesigned, principally to provide contemporary style large dining/living spaces, more en-suite bathrooms and better fenestration, together with lower construction costs. Work on the stonework for the next phase of five houses, the "Horse Mill", which comprises the five stone-arched cart sheds, the single-storey cottage, the main barn and an hexagonal Horse Mill, a notable feature, is nearing completion. The extensive and uncertain nature of the stone replacements and repairs required, some of it highly "tooled", resulted in quotations of over £250,000 for this work alone, a figure that would have been greatly extended as the work required, due to the undetectable deterioration in many of the stones and unforeseen remedial work to the structure, would have resulted in an estimated gross cost of circa £400,000. In order to reduce this estimated cost, we have employed contract staff directly and will effect all the necessary repairs – including those omitted in the original estimates – for less than the initial estimates. The progress of the masonry work, which requires the use of traditional lime mortar, unsuitable for use under 5°C, is very weather dependent. Paradoxically, much of the repair work takes longer than rebuilding completely in stone. We hurry slowly, but the quality is exceptional, as can clearly be seen in the finished stone elevations.

The work has taken three years but, given the recent grave market uncertainties and the improved market, the delay is not disadvantageous. Once the stonework is complete five new-build timber frame houses will be inserted in the reconstructed outer shell, which is complete with under building and foundations and will use existing recycled slate, factors all reducing the build cost. I expect the phase to follow shortly after the completion of the two new houses.

The masonry repairs of the Horsemill phase include restoring its east elevation, a barn wall which is part of the Stackyard, the next phase without natural stone of a further five houses. Apart from this east barn, all the Stackyard construction will be new, allowing a similar high quality product, but at a much lower construction cost and a marginal servicing cost. I expect the sales value of this Horsemill refurbishment and the new Stackyard to be around £4.5m.

A detached stone building sits east of the main steading with consent for conversion and extension to form a detached farmhouse extending to 3,226ft^2. The farmhouse site is on open ground with clear views to the Forth estuary to the north and to the Pentland Hills to the south. Around the farmhouse and in open ground to the east we hold a further two-acre site, which has just been abstracted form the Green Belt in the newly adopted Edinburgh Local Development Plan. Proposals for the development of this two-acre site, including the existing farmhouse

site have been accepted in principle, suitable for a development of 19 new-build houses over 2,5149ft^2. Beyond our two acre site EDI have lodged a planning application for an extensive residential development.

In relation to the developments at Brunstane we put in place an additional loan facility of up to £360,000 from Leafrealm Limited to fund the construction costs for two semi-detached houses at Brunstane. As at the date of this announcement, the Company has drawn down a total of £160,000 under the loan facility.

At Wallyford, Musselburgh, we have implemented a consent for six detached houses and four semi-detached houses over 12,469ft^2. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a recently-completed development of 250 houses. Taylor Wimpey are building over 400 houses nearby, but on the other side of the mainline railway, which are selling rapidly at prices of up to £246/ft^2 for smaller terraced houses and £214/ft^2 for larger detached houses. Persimmon started building in Wallyford in the spring and in early December of the 49 plot development only four unfinished plots remained for sale at £250/ft^2 for two bedroom houses and £200/ft^2 for a four bedroom house.

On the southern boundary of Wallyford a very much larger development of 1050 houses has commenced. The Master Plan for this development includes a secondary school, a supermarket and many civic amenities and is subject to a proposal to expand the housing allocation to 1,450 by incorporating land immediately east. The environment at Wallyford, formerly a mining village, but well located and on the fertile East Lothian coastal strip, is rapidly becoming another leafy commuting Edinburgh suburb. Given these greatly improved circumstances I expect to continue the development of our ten houses next year.

The third of our delayed sites is in Edinburgh at Belford Road, a quiet cul-de-sac less than 500m from Charlotte Square and the west end of Princes Street, where we have taken up an office consent for 22,500ft^2 and fourteen cars by starting construction. Also, we hold a separate residential consent for a development of twenty flats over 21,000ft^2 together with indoor parking for twenty cars on which work started in 2014, so securing that consent. Belford Road, one of the very few remaining of Edinburgh's "black holes", has been haunted – it is a former church site! – by the spectres of "abnormal costs": site access; excavation and rock breaking; and piling retention. I said last year "We propose to undertake further site work to allow construction costs to be more accurately assessed and the risk of construction cost overruns reduced, facilitating lower tender prices." We have created a good vehicle and machinery access to the site; cleared the soil and collapsed masonry to the southern retaining wall; identified that the rock levels overall are as expected; that this rock is solid and load bearing but friable (no expensive rock breaking will be required); that there is no ground water; and that the previously expected extensive piling requirement can be very much reduced.

The underlying structurally sound rock provides a good basis for the retaining wall on the south side, for the adjoining buildings and for the foundations of the development. The easy availability of the substrate throughout the site allows detailed structural assessments to be made without the need for expensive over-engineering to cover contingent or unknown requirements. Less tangibly, but equally importantly, the site work has exorcised the three "spectres": psychologically the site now invokes visions of the future, no longer haunted by the past. We continue to refine our understanding of the site and in the spring will complete some further minor excavation, requiring only another few weeks' work.

The fuller understanding of the site conditions allows us to make small adjustments to the consented proposal, to make the building easier to construct and to modernise aspects of the design, particularly in the finishes and the fenestration. Simultaneously we will seek to commence the development with a value in excess of £10m next year.

The Company has three large development sites in the Edinburgh and Glasgow catchments of which two are at Cockburnspath, on the A1 just east of Dunbar. We have implemented the planning consent on both the 48 house plot northerly Dunglass site and on the 24 house plot southerly Hazeldean site. Additionally, there are four affordable house plots on the Hazeldean site. The Dunglass site extends to fifteen acres of which four acres is woodland. There is an additional area within the fifteen acre site which is capable of holding up to thirty houses and it is continuing to be evaluated, as the ground conditions, which initially appeared to preclude development, may be remediated. At Hazeldean several options continue to be considered to satisfy the planning requirement for the four affordable houses.

These two sites lie just east of the East Lothian/Scottish Borders boundary. In the year to September 2015 East Lothian prices fell 4.4% and detached houses, the category almost exclusively in our two sites fell 8.2%, but this year East Lothian prices rose by 4.3% and by 9.1% in the quarter to September 2016 and detached houses rose by 5.3% and 3.3% respectively. The Registers' figures include all sales and so do not distinguish between existing and new house sales. The high rate of sales in the new build sites throughout East Lothian corroborates the evidence that the market is buoyant. Six miles west of Cockburnspath, at Dunbar, Persimmon are booking sales for 2017 at prices for houses of around 1,000ft^2 – small four bedroom – of £220/ft^2. At Dunglass a section of the site, holding just six plots, lies just off the former A1. We intend to build a few houses there in order establish demand, which we expect to be good, but possibly at a discount to nearby Dunbar, unless this discount is offset by

our more exclusive development. I expect the results will allow us to develop the whole site, but at a modest build rate.

The third large development site is only seven miles from central Glasgow at Gartshore, Kirkintilloch (on the Union Canal), East Dunbartonshire, and comprises the nucleus of the large estate owned until recently by the Whitelaw family. It includes 120 acres of farmland, 80 acres of policies and tree-lined parks, a designed landscape with a magnificent Georgian *pigeonnier*, an ornate 15,000ft^2 Victorian stable block, three cottages and other buildings and a huge walled garden. Gartshore is near Glasgow, two miles from the M73/M80 junction, seven miles from the M8 (via the M73) and three miles from two Glasgow/Edinburgh mainline stations and from Greenfaulds, a Glasgow commuter station. Gartshore's central location, its historic setting and its inherent amenity identify it as a natural site for development. To make the best use of these attributes, proposals have been prepared for a village of several hundred cottages and houses together with local amenities, all within the existing landscape setting. This development would complement our separate proposals for a high-quality business park, including a hotel and a destination leisure centre, all situated in mature parkland. Discussions with East Dunbartonshire Council continue and we are seeking Council support for a joint promotion of the site. Part of the stable block has been refurbished as an exhibition and visitor centre and will open in the spring to provide an on-site nucleus for Gartshore's promotion.

The company owns fourteen separate rural development opportunities, nine in Perthshire, three in Fife and two in Argyll and Bute, all set in areas of high amenity. Such small developments are outwith major housing allocations and local authorities may not give them high priority. Being located in attractive areas, they are more subject to objection to which local authority members, now elected by proportional representation, are increasingly sensitive, as their seats are less secure. Thus, gaining planning consent for such developments has become ever more tortuous, requiring in some cases the scale of development to be restricted, but such difficulties do restrict supply, enhancing value. Notwithstanding these difficulties, we continue to promote sites successfully through the planning process and to add new or improved consents to those we already hold.

In Perthshire, at Tomperran, a 30 acre smallholding in Comrie on the River Earn, we hold a consent for twelve detached houses totalling over 19,206ft^2. The demolition of the farm buildings required to secure the planning consent for the houses has been completed. West of this site and nearer Comrie we submitted an application in 2014 for a further thirteen houses on our adjoining two acre area, which had been previously zoned for industrial use. The application has recently been approved and will be issued following the signing of the S75 Agreement. In total the twenty-five new houses covering two areas will occupy over 33,912ft^2. The original farmhouse currently let, will remain within the development. A modern terraced 1 ½ storey house over 1,150ft^2 (3 bedrooms) sold recently in Comrie for £277,500, about £240/ft^2.

At Chance Inn farm steading we were granted a consent for ten new houses on 28 August 2015 over 21,831ft^2 following acceptance of our proposals for the mandatory environmental improvements. Chance Inn, part of the Loch Leven catchment area, is subject to very strict regulations governing the phosphate flows into the Loch. New developments are required to effect a reduction in the total phosphate emissions to the Loch such that, for every 1.00 grams of phosphate that a new development is deemed to discharge, 1.25grams of phosphate has to be eliminated. New developments with suitable treatment discharge very low levels of phosphate but, patently, do not effect an overall reduction. In order to allow our developments at Chance Inn to proceed we have created extensive arrangements to reduce the existing emissions from four neighbouring houses at a cost of over £100,000, following negotiations lasting over five years.

Work has started to implement these agreements and facilitate the development of two plots of 2,038ft^2 and 2,080ft^2 with planning permission in the former garden of Chance Inn farmhouse and 10 new houses over 21,836ft^2 at Chance Inn steading. One of the two Chance Inn farmhouse plots was sold in October 2016 for over £100,000 together with a small paddock for £34,000. We hold sufficient land next to the farm steading to allow the sale of 11 more such paddocks to purchasers of the new houses.

Nearby at Carnbo, on the A91 Kinross to Stirling road, the recent Local Plan included in the village settlement the paddock which we retained when we sold the former Carnbo farmhouse. Based on the changes to the Local Development Plan consent was issued on 29 July 2015 for the development of four houses over 7,900ft^2. Our first planning application here was registered by the planning authority on 26 June 2008, seven years earlier! Work is in progress to install the services necessary to market the individual plots which will be specified to allow for a possible extension of the development area.

At Strathtay we gained consents in 2011 for two large detached houses totalling over 6,040ft^2 and for a mansion house and two ancillary dwellings over 10,811ft^2 in a secluded garden and paddock near the River Tay. We have completed initial building works and have taken up the consent for both the detached houses and, separately, for the mansion house. Work is in progress to move services to permit the formation of entrances onto the public road in order to allow marketing of the two large house plots.

At Myreside Farm, in the Carse of Gowrie between Perth and Dundee, we had five planning attempts and appeals since our first application in 2007 and, after guidance from the planning department, we gained approval two years

ago for five new-build houses over 8,531ft^2, adjacent to the existing listed farmhouse which is let on a short-assured lease. The consent requires the re-use of the stone from the original farm buildings which is so expensive as to prejudice economic development. Accordingly we are seeking a variation of this requirement limiting the use of stone from the farm buildings much of which is of too poor quality for residential use.

In Fife we have attractive rural sites near St Andrews. At Larennie, adjacent to the Michelin-starred Peat Inn, five miles from St Andrews, consent was gained in October 2011 to renovate and extend an existing stone-built cottage, to convert stone buildings to four houses and to build four new houses over 19,325ft^2, forming nine dwellings. Due to poor market conditions development has been delayed, but a start will be made to the development in order to endure the consent which currently expires in April 2017. At Frithfield, only six miles from St Andrews, a site with stunning views south to the Forth estuary, we continue to undertake work to meet the planning criteria including a changed access over land in our control for a development of twelve houses over 20,236ft^2. Following an assessment of existing stone conditions and quality, plans will be prepared which maintain the integrity of the stone construction but are economical to build. Our third site at Nydie, only three miles from St Andrews, is just outside Strathkinness for which proposals will be prepared for 7 houses over 10,000ft^2. We expect all our Fife developments to benefit from the manifest and growing attraction of nearby St Andrews.

Ardpatrick is our largest rural development site, a peninsula of great natural beauty on West Loch Tarbert, but less than two hours' drive from Glasgow and the Central Belt. The long-term prospects for residential property are excellent, but their realisation continues to require investment, skill and patience to rectify the cumulative effect of severe prolonged neglect. Fortunately, the original design and construction of most of both the original Georgian and the later Victorian addition was of a very high standard and remains intact and recoverable. Repairs to some of Ardpatrick's buildings, farm sheds and landscape caused by the exceptional storms in recent years continue to be delayed by even more urgent work. The reported high rainfall of recent years has highlighted the deterioration of much of the arterial and field drainage systems, and of the risk of enhanced water levels further damaging roads, accesses, walls and fields. The recent very wet summers have both validated the repairs achieved and highlighted and hindered those still to be made. Frustratingly, unlike most repairs, the majority of them are largely hidden and the benefits not readily appreciated, but comparison of the present conditions of the fields with those in five to ten year old photographs reveals the extent of the recovery. An important consequence of this recovery is that a much higher percentage of the property falls into a higher more valuable grade of agricultural land, so qualifying for higher EU support, and the stock carrying capacity of the land is greatly increased, much above the current stocking.

At Ardpatrick the development framework is informed by the 2009 North Kintyre Landscape Capacity Study. Prior to that study we gained consent to change the use of "Keepers", a bothy situated among the Achadh-Chaorann group of cottages, and to extend that building to form a three-bedroom house, conditional on providing a new access and drive. This work has been constructed and consent has been granted for an enhanced design. This property is currently being marketed for offers over £175,000. Several other consents originally obtained or granted in 2009 have been renewed. The consent to sub-divide Ardpatrick House and to develop Oak Lodge, a two-storey 1,670ft^2 new build on the Shore Road, has also been renewed and the Oak Lodge plot is being marketed at offers over £125,000. Consents have also been renewed to convert the "Gardener's Bothy" into a 1,300ft^2 single storey house, to convert the Garage complex into two flats, to extend the Laundry Cottage and to build a new 1,600ft^2 single storey house within a corner of the walled garden.

There are a number of practicable development opportunities within the areas designated in the Landscape Capacity Study. In 2011 we secured consent for two one-and-a half storey houses each of 2,200ft^2 at the north end of the estate on the B8024 Kilberry Road. Early in 2017 work will be undertaken to endure these two consents. Nearby on the east side of the UC33 Ardpatrick Road we hold an outline consent for two houses on the Dunmore schoolhouse field, bordering the Cuildrynoch Burn and we will renew an outline consent for a detached house in a woodland setting on the West side of the UC33.

Unfortunately at present sales of new sites and conversion sites are commercially difficult to realise. Current market conditions continue to be unhelpful as prices in Argyll and Bute fell 4.6% in the year to September 2016. Since Q4 2012 detached house prices are unchanged, although there was a surge of 27.1% in Q1 2015, the year of the introduction of LBTT which penalises higher priced houses, but detached house prices have since fallen 21.1%, effectively reversing the upsurge. The poor market conditions are exacerbated by the cost of upgrading the inadequate infrastructure, partially due to the required enhancement of the public services. Additionally, the number of competing sites continues to rise. It is not difficult to envisage that second homes, holiday homes and relocation/retirement homes would be amongst the last to recover following a depression, a recovery now slowed by the tax impositions on second homes and on buy-to-lets. With this background it is encouraging to note that one or more new houses are built, and others renovated, in the Ardpatrick corridor each year greatly improving the area and establishing it as a centre properly renowned for its landscapes and wildlife. In any recovery Ardpatrick's pre-eminent position will continue to command a premium.

Economic Prospects

Forecasts for the UK economy for a year ahead have normally been reasonably accurate. For instance during 2007 successive forecasts given that year were for growth of 2.7% to 3.1% and for 2.0% to 2.5% in 2008. The forecasts

of growth changed little month by month. Economic growth had been consistent and steady for 64 quarters since the recovery from the brief 1990/1991 recession. Gordon Brown proudly proclaimed:- "We today in our country have economic stability not boom and bust …" "we have Abolished Boom and Bust". Unsurprisingly the forecasts over that period had proved reasonably accurate but dangerously complacent. In March 2008 the average of The Economist poll of forecasts for 2008 was 1.9% and for 2009 was 2.0%: the outturn was -0.1% for 2008 and -4.9% for 2009. The enormity of the depth of the Great Recession was wholly unforeseen by the forecasters polled until it was upon them.

Indeed, as Her Majesty the Queen disingenuously enquired of the Director of the London School of Economics, Professor Luis Garicano, "If these things were so large, how come everyone missed them?". Colourfully, as the FT surmises, the Queen had not been briefed "from the man who comes weekly to tell her what is going on – not the nice smooth one – he went some time ago. Now it's the grumpy Scottish one" whose view is that the crisis materialised unannounced as an evil spectre fleeing New York. Professor Garicano reportedly replied that "at every stage someone was relying on somebody else and everyone thought they were doing the right thing".

A seismic turning point in economic activity was not forecast. The poor forecasting of abrupt changes has long been recognised, as exemplified by Paul Samuelson's quip in 1966 that economic commentators "predicted nine out of the last five recessions".

The economic consequences of Brexit are forecast to be dire. The NIESR observe that, while economists usually disagree, on Brexit they do not. The Economist notes that "a host of studies – the NIESR, the Treasury, the Institute of Fiscal Studies, Oxford Economics, PriceWaterhouseCoopers, the Centre for European Reform and the London School of Economics agree with the international bodies " - the IMF and the OECD – " that Brexit would mean less trade, lower foreign direct investment and slower productivity growth".

Moreover the immediate effect, a conclusion not disputed even by the pro Brexit economists, would be a negative shock, yielding, in the Treasury's view, a "do-it-yourself recession". Indeed the Chancellor George Osborne warned that a vote to leave would force him to raise taxes or cut spending by £30bn. After the referendum Martin Wolf endorsed the Treasury view saying "The Treasury might even have been underestimating the shock. It would be astonishing if there were to be no recession" and the Economist in a jeremiad says "as confidence plunges, Britain may well dip into recession".

The initial reaction to the referendum vote appeared to justify the projection of the established economic forecasters. The £ fell from over $1.50 before the vote to a 31 year low of under $1.30 in early July; the Governor of the Bank declared risks "were starting to crystallise"; Standard Life and other property funds froze their redemptions; the FT's headline "Brexit sell-off signals house price fall" reported that investors were pricing in a 5% fall in home values, that shares in the UK's four largest housebuilders had fallen between 28% and 37%, and that trading in Barratt Developments, Crest Nicholson, Taylor Wimpey and Berkeley had been suspended briefly after each company had dropped precipitously enough to trigger the FTSE "circuit breaker"; Merrill Lynch expected a 10% house price drop over the coming year; estate agents' shares fell – Savills 26%, Countrywide 32% and Foxtons' 37%; and shares in the UK's three principal banks, fell by over 25%. Martin Wolf, the FT's Chief Economics Commentator stated, "So far, the experts, dismissed by Michael Gove, Justice Secretary, have been proved right … it would be astonishing if there were to be no recession".

To avoid traversing this Bunyanesque Slough of Despond, "this miry slough, such a place as cannot be mended", Martin Wolf hoped, paraphrasing Emperor Hirohito's remarks at the end of the Second World War, that a new Prime Minister would declare that, given the unexpected economic damage and the risk of a break-up of the UK the situation "had developed not necessarily to the UK's advantage". He might forget the whole thing, or, alternatively, call another referendum. Calls for another referendum were part of a hysteria given widespread press coverage with FT headlines such as "BREXIT CRISIS". Accordingly, calls were made for another referendum to redress such a mad, damaging and irrational result, typified by Tony Blair "I wouldn't write us out of Europe yet, OK?" … "I mean I can't see us having another referendum at this point. But I wouldn't rule anything out". Certainly such a move is consistent with previous reactions to unfavourable votes on the EU. In 1992 the Danes voted to reject the Maastricht Treaty. The Irish voted to reject both the Nice Treaty in 2001 and the Lisbon Treaty in 2008. The Danes and the Irish were granted concessions sufficient for subsequent referendums to overturn their earlier rejection of these treaties. Even Boris Johnson, a Brexit leader, concedes that "all EU history shows that they only really listen to a population when it says, No"! Martin Wolf, favouring a wait and see policy, recounts the story of the man condemned to death who told his king: "I could teach your horse to sing, within a year." The king replied: "Very well. But if the horse is not singing a year from now, you will be executed." Upon the criminal's return, his cellmate remonstrated: "You know you can't teach that horse to sing." He replied: "I have a year I didn't have before. A lot of things can happen in a year. The King might die. The horse might die. I might die. And, who knows? Maybe the horse will sing. I suggest we try that year or so."

Some commentators expected a sharp contraction in the economy similar to that following the Lehman Brothers' bankruptcy in 2008 including the former Finnish Prime Minister who said the UK could face a "Lehman Brothers" moment and a former Chief Economist of the OECD who said "We are more worried – for the UK - than we were in 2008 or any other post-Second World War crisis". The EIU predicted an economic contraction of 1% in 2016

following a sharp downturn in growth for 2016 and a drop of 4 percentage points below its previous forecast for 2017. Support for these gloomy forecasts was provided by PMI's "flash" June index which fell from 51.9 to 47.3, described by MPC member Martin Weale as "a lot worse than I thought … for the best short-term indicator we have …". The GfK UK consumer confidence survey for July 2016 showed a 12 point fall in July compared to the pre-referendum figure, the deepest fall in 26 years, even deeper than during the financial crisis and the CBI industrial trends survey had a negative balance of 48% in line with the Great Recession and the 9/11 terrorist attacks. Such consumer surveys appear to support economic analysis but they may be more a reflection of the publicity given to economic forecasts than a considered view. The forecasts may cause the survey outcomes but the survey outcomes may in a circular way influence the forecasts. Such survey evidence should be taken in context as publicity almost certainly has a significant influence on them. Indeed, Lord King, the former Governor, criticising the "hysterical tone" of the Chancellor before the referendum, accused Mr Osborne of turning "incredibly speculative forecasts into facts". The former Governor, unlike most analysts, was sanguine on the outlook for the economy, commenting on 27 June "I'm not saying it's nothing to worry about, but there's no reason to extrapolate this [cut in growth forecasts] into a sort of mindless panic. Foreign-direct investment undoubtedly will probably fall and be on hold for a period, and that was the largest likely short-term economic impact of leaving the EU. But that reflects the uncertainty, and at some point that uncertainty will disappear."

Lord King has proved prescient, as in the quarter following the Leave vote the economic performance has been strong, quite contrary to the indications given by surveys of "confidence" and to the almost hysterical forebodings of most leading forecasters and of government agencies, and, in particular, the Bank. Respected international forecasters were also proved to be unduly pessimistic and, as the Guardian says, "The IMF and the OECD's prediction of economic gloom went away". When no immediate lasting damage occurred, they reverted to a second position: the strength of the economy was due to consumer spending but that investment would be weak, a prediction refuted by the upturn in investment in Q3 compared to Q2. The OECD has now defaulted to forecasting the UK growth will slow from 2.0% in 2016 to 1.2% in 2017 and to 1.0% in 2018.

Recent data confirms strong growth in Q3. GDP rose 0.5% quarter on quarter resulting in an annual growth of 2.1%, employment rose a further 37,000, retail sales rose by 1.9% compared to the previous month and by 7.4% compared to the previous year and the index of services rose by 0.7% in Q3, or by 2.9% for the year, Market Services and Construction Indices indicated increasing activity and Consumer confidence was positive. Given such positive data it is unsurprising that the now-casting.com forecast for Q4 is for 0.61% growth, giving UK growth of 2.1% in 2016. Similar 2016 growth forecasts are given by the Economist poll of forecasters 2.0%; by NIESR 2.0%; and by the Bank 2.2%, a revisal up from 2.0% in August 2016.

In June 2016 the Economist poll of forecasters forecast average growth of 1.9% in 2016, of which it transpires 1% had already occurred, leaving an implied forecast of 0.9% for the second half of 2016. In the subsequent three months the implied forecasts for the second half of 2016 were marked sharply down to 0.5% in July, and to 0.6% in the subsequent two months and are currently at 1.0%, a rate even higher than the first six months of 2016. Such figures are consistent with an analysis that a Brexit vote would immediately be damaging, that a high probability of such a vote would have downgraded the forecast prior to the vote, that a Leave vote had damaged the economy severely, but that, as it transpired, little, if any, damage has occurred, as the growth has returned to the level of the original forecasts.

The Economist poll figures are "averages" of 23 individual institutions of which 15 are included in the HMT "Forecasts for the UK Economy". In July 2016 three of the 17 "City" HMT forecasters, including Barclays and Credit Suisse, forecast virtually no growth for the remainder of 2016. The overall average then was 0.5%, but, in line with Economist poll of forecasters, by October 2016 the average had risen to 0.9%. A similar reversal took place in the forecasts for 2017. The July forecasts for 2017 by the 17 "City" forecasters were: Contraction four (of which one -1.3%); less than 1% growth 12 forecasters; and 1.5% growth, Capital Economics. By October 2016 however all forecasts were for at least 1.7% growth in 2017. One wonders how much money was spent on producing the analysis to make such forecasts and one trusts that not too much clients' money was risked in consequence!

Self-evidently the errors in the post Brexit forecasts made pre Brexit were outwith any random or statistical error, and given that most 2017 forecasts are now not far removed from the UK's "normal" 2.0% to 2.25% growth rate, the immediate and the near term effects on GDP growth of the Brexit vote is now considered to be meaningful but small. In essence the forecast, indeed the sharp warnings, of an economic shock provoking an economic downturn proved misplaced. What is even more remarkable is that the forecast of an immediate downturn was from the overriding majority of those sampled, probably all deemed expert.

How did so many get it so wrong? In the days preceding voting the likelihood of a "remain" win increased and just before 23 June 2016 the "remain" had a substantial lead in the polls and the probability of remain winning based on betting odds was about 80%. Perhaps a considered analysis in the wake of the Brexit vote was compromised by a panic reaction and allowed an intuitive response to a result for which they were unprepared. The official line of the IMF, the OECD, foreign administrations, the Chancellor and the Bank was that Brexit was highly inimical to the UK economy and this became the new orthodoxy.

The forecasters quoted shared much of the background experience and values of such official organisations and, in addition, had a strong political incentive, because of these vested interests, to remain within mainstream thinking. Many were centred in London sharing a reclusive world of high finance. They were subject to the same external influences from other contacts outside the institutions and from similar pressure from within them. Not unnaturally such groups were likely to develop similar values, and a common approach, even to the extent of adopting group views with which they do not necessarily concur - "group think". Unfortunately, it appears "OK" to be wrong when everyone else is wrong, but to be wrong when everyone else is right is catastrophic, but inversely to be right, when everyone else is wrong, is not similarly prized. Such asymmetry reinforces conformity.

Apart from social, psychological and motivational parameters there are deeper causes of poor forecasting. Neither academic brilliance nor abstract or theoretical intellectual capability are highly correlated with forecasting skills – they are necessary but not sufficient. Accurate forecasting has been shown to require a specific skill.

Historically there was an important distinction between forecasting and prediction, words now used almost interchangeably. Prediction's etymology "prae" before and "dicere" to say – implies a foretelling, a fate, a predisposition or a certainty. A forecast has no implied certainty but arises from analysis under uncertainty. Shakespeare's Caesar colourfully illustrates these shades of measuring as he is warned of impending disaster, notably "to beware of the Ides of March" to which Caesar replies:-

"Whose end is purposed by the mighty gods?
Yet Caesar shall go forth, for the predictions
are to the world in general as to Caesar".

In contrast Cassius, persuading Brutus to join the conspiracy, says "Men at some time are masters of their fate": The future "at some time" was manipulable. Forecast is derived from the northern European 'kasta' to throw (as a fishing line) which by the 13th Century also meant "calculate", or, in Cassius' usage, plan Caesar's assassination. Separately, Shakespeare notes a psychological tendency causing errors in forecasting: Cicero reflects on Caesar's dismissal of the warnings. [But] "men may continue things after their fashion/clean from the purpose of the things themselves". We see what we want to see!

"To continue things after their fashion" is self-evidently a poor basis for forecasting as obviously is the insufficient questioning of trends. In the mid-1980s Professor Philip Tetlock of Wharton engaged in a large scale practical experiment whose final results were published in 2005. His experiment engaged 284 US professionals employed in analysis in academia, think tanks, US Government, international organisations and the media. These volunteers with post graduate degrees, including half with PhDs, were engaged in an experiment designed to answer the key questions – how good are the forecasters; who are the best; and what sets them apart? The "control", epitomised as a random dart throwing chimpanzee, amusingly titled the "chimp". Quite astonishingly, the average result of the tested professionals differed very little from the "chimp"! On analysis the subjects comprised two statistically different types of experts, but between these types the backgrounds, academic abilities, politics and prejudices were very similar. One of the two groups of types unfortunately failed to do better than random guessing – the "chimp" - and even managed to lose to the "chimp" in their long-term forecasts. The second group barely beat simple adages such as "always predict no change" or "predict the recent rate of change" but they did beat the chimp, if by only a modest margin. The two groups had similar numbers of PhDs, of optimists and of liberals and of information, including classified information.

The two groups differed not in what they thought but how they thought. The poorer performing group tended to have clear Big Ideas, concepts, political attributions and certainties: while widely divided by differing ideologies, they were united by their adherence to them. Problems and prospects were viewed through the prism of seeking and keeping a rigid structure, discarding misfits and rejecting subsequent competing evidence. The better performing group were more tentative, weighing probabilities and possibilities, and less fixated on conclusions. During analysis they changed their views, retracted, rephrased and re-concluded. They enjoyed a flexibility extending to the information they sought, the approach to it and to its interpretation.

Thinking varied between the groups, a difference in style noted by the Greek poet Archilochus: "The hedgehog knows one big thing but the fox knows many things". Tetlock described the Big Idea experts as hedgehogs and the more eclectic experts as foxes. The difference between the two groups was neither their intellect nor their intelligence nor what they thought: it was how they thought. Good forecasters and poor forecasters had similarly high intelligence and advanced academic training, a normally necessary condition, but not a sufficient one. Tetlock had discovered this difference within this population and by testing a method of distinguishing between "the way they thought", the selection of good forecasters had become possible.

Tetlock recognised that a quite separate and established technique of forecasting gave excellent results under some conditions. In 1906 Sir Francis Galton FRS attended the West of England Fat Stock and Poultry Exhibition in Plymouth. At the fair 787 people guessed the dressed deadweight of a live ox. The median average on which he reported was 1,207lbs (actually, as discovered later, 1,208lbs!). The reported deadweight was 1,197lbs but for reasons unknown he used the median average in his paper! As probably the world's most eminent contemporary statistician, he may have been aware that in Mendel's pioneering work on "inheritance factors" (genes) using peas,

that the actual results Mendel recounted, exactly fitting the precise ratios he expounded, had a very small probability of occurring in any one series of trials due to random factors: perhaps the wily monk, not being versed in such statistical variation, had after all not worked forward from the results to the hypothesis, but vice versa – tut, tut! Galton's observation of this "wisdom of the crowd" led him to the general conclusion that the average error of any one person was greater than the average error of a large number. Like many great ideas, once formulated – and that is the genius – it's commonplace.

Tetlock hypothesised that he could add this extra dimension – the wisdom of the crowd – to improve the results of smaller groups of specialised forecasters already selected for the "way they thought". Tetlock screened 3,200 possibly suitable candidates through his established methodology, selecting about 200 - "the crowd". From such a large group he then tested and isolated 40 who excelled in accuracy. Then he retested the whole "crowd" group to assess Galton's "wisdom of the crowd". For a final integrated forecast he combined the results from the crowd with the results from the 40 but gave disproportionate weight to the views of the 40 who excelled. Tetlock then tested a further refinement of the integration of these two separate strands of forecasting. He arbitrarily intensified the direction of the weighted collective view of the crowd and the 40: to "extremise" it in his word by making the final integrated forecast more extreme or nearer one or zero, depending on which side of the centre, or 0.5, the final integrated forecast lay.

Tetlock used his "extremised" technique to test the accuracy of a group against established experts. He found his selected groups using these techniques outperformed established experts even when such experts had access to and use of classified information. He concluded that educated non-specialists working together in such a structured format outperformed experts selected by the current criteria. How you think beats what you know, especially if you are buffered and protected by a wide range of knowledge and experience so that outlier and very specialised contributions are included.

The enduring lesson of the sophisticated Tetlock experiments was that Tetlock's super forecasters had a "different way to think" as the defining feature of their superiority. This is a truth that is sometimes immediately obvious in practice. One notable failure of political forecasting illustrates the failure of closed rather than open thinking. The Iranian revolution of 1979 and the overthrow of the Shah whose government was closely integrated into the UK diplomatic sphere of influence, was entirely unexpected by the UK Foreign Office and because of this failure, the Foreign Secretary instigated a secret inquiry into why British diplomats had not forecast it. The inquiry found that a major problem was that embassy staff had little contact outside the elites around the Shah. Reportedly, the Foreign Office now value "ground truth", outside protected established and perhaps prejudiced views, a source so valuable that one subsequent Ambassador to Iran is reported to check whether his staffs' shoes were dirty: "If not, I know they hadn't been getting out of the embassy and meeting people".

In his succinct summary of the abject failure of economic forecasting prior to the 2008 Great Recession Professor Garicano replied to Her Majesty the Queen's very diplomatic enquiry. "If these things were so large how come everyone missed them?"; that at every stage someone was relying on somebody else and everyone thought they were doing the right thing". They hadn't been getting out.

The widespread experts' forecast of an immediate collapse in the UK economy following the Brexit vote has proved equally misplaced, but fortunately much less damaging. It seems likely many such experts did not share in the "wisdom of the crowd" and moved primarily amongst the elites of their own and of other professions. It is possible to argue that they saw and read information from their peers who were equally introspective and they did not "get out" enough: certainly they appear not to have got their shoes dirty.

Any forecast is crucially dependent on the starting position. The experts' view of the immediate dire economic consequences of a Brexit vote are not necessarily inconsistent because if the starting position is that it is axiomatic that the present is highly desirable, and satisfactory, and necessary, then the alternative is by definition wholly otherwise. It follows that the prospect of this dire alternative makes its support improbable. Moreover, there was good evidence to support a view of the universality of such perceived benign current conditions. The screens and the statistics told the experts unemployment was only five percent, the lowest for 11 years, the economy was growing reasonably, participation in the labour market was near a record high and income inequality had declined since the 2008 recession began. But the figures did not reconcile with conditions on much of the ground, as dirtying their shoes would have found, where large numbers continued under difficult conditions, where high local unemployment existed because of structural economic changes or outsourcing, and disaffection was felt by many workers, most of whom had not enjoyed a rise in real wages for almost 10 years. If they had "got out" the experts would have known for sure: "It's cold up North".

A less tangible but insidious cold pervades much of the North, like a mutating virus. Its manifestations include resentment, envy, and an inherent feeling of the injustice of the system that seems to reward, not punish, the failure of financiers, bankers and professionals in the face of austerity. Reinforcing such trends is the continuing large immigration, often seen as threat to many, for the convenience, partly disguised as moral fulfilment, of others: in short, the re-awakening of populism, the common manifestation of popular discontent. It is difficult to encompass such views in forecasting models currently used which are so different to that espoused by Tetlock.

The relationship with the EU is a major determinant of the UK's economic prospects, a relationship that is likely to change appreciably but over stages. The first stage has already passed subsequent to the referendum. The leave vote resulted in a sharp shock to the economy, a steep decline in confidence and a short-term economic contraction followed by a swift recovery to a growth rate similar to that before the vote. This recovery was assisted by a sharp devaluation of the £ and, to a lesser extent, by monetary support and by assurances of further support from the Bank. If business investment has been reduced or foreign direct investment been delayed or diverted, there has been no obvious sign so far and, indeed, none would be expected because of the long cycle time of such decisions.

The first key question is, will Brexit happen? There will be continuing skirmishes with pro EU initiatives provided by various groups, of which the current Supreme Court case is evidence. A Parliamentary process is almost certain to be required and the Government's business will prevail, possibly with minor amendment. There will be ongoing opposition in the Commons and the Lords, and the majority of MPs who are in favour of continuing within the EU will always seek to ameliorate the exit conditions, and, in extremis, overturn policy. However, without a cataclysm sufficient to produce a recognisable and defensible material change of circumstances, the latent parliamentary majorities will not risk a showdown with what is regarded as the democratic will of the people. However, given any suitable opportunity they will seek to re-open the debate in an effort to hold a further referendum.

But what does "Brexit means Brexit" mean? And what are the implications, of any given meaning, as these implications are largely interdependent. Clearly, it means different things to different people, and crucially, varies over time. While the immediate post referendum panic, a shock reflex reaction from the mistaken forecast of the referendum outcome, has proved misplaced, the medium-term effect, over say five years, is independent of this short-term recovery and is likely to be significant. Forecasts made post referendum, post panic, are encouraging. The OBR forecasts growth for the next few years as 1.4% in 2017, 1.7% in 2018 and 2.1% from 2019 onwards, only marginally down from its forecast in November 2015 by 0.8% in 2017 and 0.4% in 2018. Thus, the change from the pre-referendum position to the "certain" Brexit position is quite small. The return of growth to 2.0% or over from 2019 indicates that the OBR considers on its present assumptions on Brexit conditions that the UK will return to or near to the long-term growth pattern by 2019. The Bank also forecast a drop of growth to 1.4% in 2017 but a slower recovery in their forecast period up to 2019. Forecasts from NIESR, Oxford Economics and IMF are broadly similar to the OBR's forecast, confirming a return to near normal growth in 2019.

The growth figures appear anomalous as the lowest growth is forecast over the next two years during which there will be no changes to the trading relationship between the UK and the EU, as the exit cannot be before Article 50 is invoked in March 2017 and is most unlikely to be before March 2019. The low forecast for short-term growth probably results from the present expectation of low fixed investment prior to the settlement of the exit terms.

The long-term effect of leaving the EU will depend on what the trading terms with EU27 are and what affect these changes have on the UK economy. The determining factor will be the balance between trade destruction by leaving the EU and trade creation outwith the EU. Changes in domestic investment and FDI in the UK will be determined by the analysis of such likely trade patterns which such investment will continue to reinforce iteratively.

The cumulative loss to GDP until 2021 on leaving the EU is significant. Ernst and Young forecast, published in October 2016, the cumulative loss resulting from lower UK Growth of GDP by 2030 at nearly 4.0%. Since then they have revised upwards their relatively low forecast for 2016 and 2017 growth to 2.0% and 0.9% respectively. Compared to the OBR's forecast, Ernst and Young forecast 0.3% to 0.5% lower growth in GDP in each of the years until 2020, when they forecast only 1.8% growth, well below the UK's long-term average that the OBR expects. If Ernst and Young's forecast is upgraded by even 0.15% each year for five years, conservatively less than the OBR figure, then the resultant loss to GDP is 3.25%.

The estimated GDP loss is very damaging but much greater losses have occurred. In the Great Recession of 2008 real GDP dropped by 5% over two years, a contrast to a loss of a potential decrease of 3.5% over several years. A greater thief of actual GDP growth compared to potential GDP has been the significant reduction in productivity. In the eight years before the 2008 recession productivity rose 19% or about 2.35% per annum following a 20% rise in the previous eight years. Since 2008 there has been virtually no rise in productivity in the UK, and there has been a very large loss of potential GDP, dwarfing the potential 3.25% loss over the next five years. Productivity may seem less important than the loss of trading opportunities but as Paul Krugman, the Nobel Laureate, says "productivity isn't everything, but in the long run it is almost everything". More output per unit of input underlies all economic advance.

The potential damage from whatever "Brexit" is agreed or, if not agreed, occurs will be mitigated by any transition period. The longer the period the more time is available to develop other trade links so that the economic cost of the loss of trade with the EU can be compensated by the benefit of trade elsewhere, such links taking many years to establish and develop. The UK did not invoke Article 50 soon after the election, but the Government has said it will do so in March 2017, probably as a result of political pressure, as the date is entirely at the UK's discretion. But having invoked Article 50, the initiative lies wholly with the EU27, all of those members would have to agree to any extension. The EU chief negotiator, Mark Barnier, an experienced French Minister and a senior EU official, was acutely aware of the shift in the balance of power when he outlined the EU27 negotiating position in early December: that Brexit talks would be a short negotiation lasting less than 18 months; that EU27 unity was the first

over-riding priority; and that the final deal would have to be worse than EU membership. Eighteen months is clearly an unrealistic timetable to negotiate a change in more than part of the complex web of relationships that the UK has with the EU, even if, and this is by no means certain, the parties have a genuine desire to reach such a settlement.

M Barnier is adopting a strong negotiation position and setting rules, timetables and intimating the restricted discretion available because of the requirement for any agreement to be approved by all the 27 member states. However, his position is very strong: the UK wish to leave the "Club"; the institutional framework and the voting structure in the Club is very unfavourable; the EU27 economy is considerably larger than the UK's and the mutual economic damage from any trade disruption would be much lower per person in the EU; the UK military and security "assets" will continue through NATO and mutual interest; and, most importantly of all, the UK is not a "core" member of the EU, is not a Eurozone member, does not have a cultural memory of the domestic devastation of two world wars and unlike many EU nations does not have a continuing reminder of successive defeat at the hands of German economic strength and military power. Indeed, for the principal EU nations the EU is a political organisation and the economic affiliations, of which the major manifestation is the Euro, are primarily a means to achieving the political goal. Thus, if there is an economic cost in negotiating the UK Brexit, it is a small added price to pay in relation to the continuing costs of existing politically oriented economic policies.

In general, the UK has never shared the identity of the common cause, "The dream of Europa", the inspiration of many members of the EU. In short, for the UK economics matters more than politics, but for the EU27 politics matters more than economics, an unfortunate asymmetry for the UK. Unlike any previous occasion the entire political construct is threatened by "Brexit". Brexit strikes at the heart of Europa when she is already suffering from the continuing instability of the "Club Med", particularly Italy; poor EZ economic performance; the rise of populist and other anti EU groups in France, Italy, Greece, Hungary and many other nations; and by separatist ambitions elsewhere, notably Catalonia. Thus, to create significant exceptions or give special treatment now to the UK would fuel the growing anti EU clamour and centrifugal ambitions. As Hilaire Belloc said of Jim "and always keep ahold of Nurse, for fearing of finding something worse", a somewhat tardy admonition in practice, as the lion had already eaten all but poor Jim's head! The UK's Brexit is an unprecedented attack on centralist EU aspirations and inflicts heavy reputational damage on the concept. For the EU27, the political imperative of maintaining at least the appearance of cohesion and not awakening Europa from her dream outweigh economic considerations. The secondary importance of economic considerations means the Brexit negotiations will not meet many of the current UK expectations, and certainly not the UK's aspirations.

There are several possible models for the UK relationship post Brexit. Norway has a relationship allowing unfettered access to the single market. Norway is inside the Schengen area, allowing free movement, and any similar proposal for the UK would be totally unacceptable to the electorate for whom immigration control is a sine que non. Switzerland has a series of bilateral trade agreements with the EU but like Norway has agreements on association with the Schengen area which renders the Swiss model also unacceptable.

The communique issued by the EU27 following their immediate post referendum summit confirmed that no relaxation of the EU principle of free movement would be acceptable. This may seem non-negotiable, although the EU has been notorious for extolling rigorous adherence to rules but then finding "fudges" such as stopping the clock in CAP negotiations, allowing violations of Maastricht rules by France and by Germany on the assimilation of East Germany, suspending the free movement of capital to keep Greece in the EMU – if the political risk is high enough, short-term expediency rules, but as the UK would require an unacceptable long-term exception, such "fudging" is unlikely.

The three possible options for the UK EU27 economic relationship are: (a) a customs union similar to the 1995 EU-Turkey Ankara agreement; (b) a free trade agreement similar to the EU-Canada Comprehensive Economic and Trade Agreement; and, (c), a reversion to World Trade Organisation Rules. A customs union would allow tariff free access inside the EU but would impose tariffs externally as determined by the EU, including high agricultural tariffs, and would of itself make no provision for services, the largest net UK export to the EU. A FTA would be preferable to a Custom Union as it would allow free imports from world goods markets, but it leaves all exports subject to complicated rules of origin, possible border controls and financial services prone to non-tariff barriers to which unfortunately they are especially vulnerable. Such an agreement would be preferable to a Customs Union but, if the current Canadian experience is a precedent, would take five to ten years to enact.

When the UK leaves the EU, trading arrangements will be governed by WTO rules of which the EU and all member states are members. This is the certain UK default position which requires no EU27 ratification. However, given that there are many aspects of the UK economic, political and strategic structures that are attractive to the EU27, it seems likely that an enhanced WTO arrangement will be made – this is the most likely option and one which might allow mutually beneficial transitional arrangements. Such a compromise would be economically favourable to the EU27 and would minimise further political damage.

The default WTO position is calumniated as a residual default position to any negotiations, and as a result the UK economy is considered likely to suffer a decline in GDP compared to the status quo ante. However, the level of decline is considered by the NIESR to be 2.5% in the short term and 2.7% in the long term. These predicted falls

are similar to Ernst and Young's forecast and are lower than other estimates. Much more could be gained if the previous rate of productivity was restored.

In the referendum the voters were not given impartial guidance on the forecast likely cost of a "WTO Brexit" settlement to GDP, if such an assessment could be made. Certainly, the record of the survey of economic forecasting as demonstrated above would not place a high probability on such accuracy. Unfortunately, often choices have to be made on the basis of similar great uncertainty. The economic performance of the UK is impeded by many similarly unquantified choices. These include regulations, social concerns, centrally provided public services and goods, welfare and environmental and green policies, regional industrial policies, planning regulations, cartels and monopolies, and self-regulating professionals all which are considered, probably rightly, should be delivered irrespective of the precise cost to economic growth. Perhaps the cost of Brexit is a cost that the electorate are prepared to pay, although it is a heavy one as the 2.5% loss is a continuing year after year loss. Billie Bunter understood it well: if he missed a meal he could never catch it up.

Restrictions of trade provide one of the main forecast costs of Brexit, but the forecast costs may be overstated. Trade exports to the EU have declined from a rate of 60% of all exports in 1990 to 44% in 2016 while exports elsewhere have continued to expand. The effect of EU tariffs is likely to be much lower than is often realised, as many high volume goods are subject to tariffs of less than 3%.

The highest EU tariff falls on some agricultural products where they reach 18%, more than five times the weighted mean for manufactured products. EU agriculture is a very highly protected industry of which tariff protection provides only a part. The UK economy would gain considerably from the removal of EU external tariffs as world agricultural prices are generally lower, and UK agricultural income could be protected, as appropriate, through a much cheaper reinstated UK agricultural policy. The range of tariffs on manufactured products is wide – less than 1% for pharmaceuticals and oil and fuel, rising to 6% for plastics and 10% for cars – but the weighted average is 3.24% and only 2.3% for industrial goods.

The effect of such tariffs for UK manufacturers on their sterling receipts is greatly mitigated by the devaluation of sterling. Indeed, if the wholesale prices in UK is 75% of the final EU27 retail price, then, assuming no inflation of the UK manufacturer's import costs, the current devaluation of the £ compensates for an increased tariff of as much as 10%. The UK currently imports about £100bn more goods from the EU than it exports to it. Given the relatively small tariff barrier and the massive sterling devaluation the traded goods sector should not be severely damaged by adopting a WTO trading system.

The services sector is a net exporter of about £20bn, of which the financial sector has a net positive balance of about £17bn and the only significant net negative balance is the travel industry where circa £10bn more was spent on "travel" by the UK outside the UK than within the UK by EU27 travellers. Brexit will not affect the travel industry and, given sterling's devaluation, the net balance should decline.

The restriction in trade in the other service sectors is not related to tariffs but primarily to regulation, licencing and controls; and the individual service sectors in each EU27 country are still highly protected – the much vaunted single market does not operate in these areas – and as John Kay, possibly echoing the All-Party Parliamentary Group's conclusion "there is no single market in services in any meaningful sense" says "for most services, however, the single market remains an aspiration rather than reality". Thus leaving the EU will be a greater opportunity cost than an existing cost for most of the service industry. It seems very likely that a significant number of the EU privileges of the financial sector will be withdrawn and that in consequence administrative structures to meet the regulatory requirements of the EU will have to be introduced. This will certainly result in some existing non-UK institutions relocating some functions outside the UK and an increased cost for UK institutions who decide to meet the changed regulatory requirements. The competitive advantages of most service industries are related to location, quality, convenience, inertia and habituation and skill and, to a lesser extent, price, than the trade sector. For UK institutions the costs of meeting foreign regulations will usually be not significant in relation to the margins on the business transactions and the strategic importance of providing a comprehensive service to clients. The contraction of the service sectors, particularly the financial sector, will prove less severe that many commentators contend, but margins may be reduced.

Scotland's economy has underperformed the UK economy for the last five years. Forecasts for Scotland are lower than before the Leave vote, and in November Mackay Consultants estimated growth in 2016 of 1.5% and forecast 1.2% for 2017. Mackay's 2017 forecast is lower than EY's 2.0%, but higher than the Fraser of Allander's 0.5% and PWC's 0.3% whose forecasts', Tony Mackay says, drolly but accurately, "have been very poor in recent years"!

Scotland's poorer economic prospects have four main causes. Scotland has a proportionally larger public sector which, as evidenced in the Education PISA results, has low productivity, Scotland is outside the higher growth area of London and the South East, a difference that has become more marked since the collapse of its two largest institutions, the RBS and the Bank of Scotland. Fortunately, the skills training and aptitude necessary for the executive and administrative functions remain and support the financial sector in Edinburgh and Glasgow, but the strategic function has been diminished together with the associated professional expertise.

Indy ref 2, as a possible second referendum is quaintly termed, detracts from Scottish economic performance as it casts a shadow over investment in Scotland, but this threat to economic progress is diminishing. The value of prospective Scottish Government revenue from North Sea Oil and Gas is now so small that the fiscal deficit of an independent Scotland would be about 10%, comparable with Greece in the Great Recession. Such harsh reality is sapping the SNP's exceptional ardour. Indeed, the widespread discussion of the economic cost of Brexit may have drawn attention to the very considerably greater cost to Scotland of a Sc-exit, given its closer economic ties to England than the UK to the EU. If the UK with its own currency has difficulty negotiating with the EU27, how much greater would the difficulty be for Scotland negotiating with the UK? A separate, often unrecognised point, is that if Scotland fears for its lack of influence over UK policy, how much less influence will it have over the much larger and more different EU27 policy?

The November 2016 YouGov poll showed support for a 'Yes' vote was 44%, its lowest poll since September 2014 when 45% voted Yes. This outcome was surprising as commentators considered that a Brexit vote by the UK was contrary to the Scottish vote to Remain and a preference for the EU would provide a windfall for the SNP. John Curtice commented that "While some people might have switched from No to Yes in the wake of Brexit, as the SNP anticipated, there was also a risk that some people would switch from Yes to No – for them, the prospect of being in a UK outside the EU becomes much more attractive than a Scotland intent on remaining inside the EU". He estimates that between a quarter and a third of people who voted Yes in September 2014 voted Leave in June 2016. Thus, a significant number of Yes and Leave voters are deciding it's more important to be outside the EU than it is to be part of an independent Scotland. John Curtice continued "Sturgeon's apparent assumption was that Brexit would shake the apples off the tree in her direction. In fact, some of the apples have gone in the other direction."

The oil industry is the fourth cause of Scotland's poor economic prospects as its decline continues to damage the economy as new investment is reduced, long cycle projects complete and damaged businesses continue to collapse. Existing firms expect staff losses to be 33% by mid-2017. Oil prices have improved recently and without doubt the nadir in oil prices has passed and the £ devaluation increases revenues from North Sea oil to the extent that costs are not $ denominated. The OPEC agreement gives evidence of a new rapprochement among Middle Eastern enemies who, in plain terms now "hate the effects of low oil prices more than they hate each other" and have agreed to restrict supply and have persuaded Russia and other countries to co-operate for mutual gain. Incremental supply cuts are also taking place on a progressive basis as older fields are depleted. Prior to 2015 non-OPEC fields declined at about 3% per annum but, owing to low margins leading to lower capital investment, the decline over the last two years has been about 5.75% per annum. In 2017 mature oil fields, will deliver 3.5m bpd less than in 2014. These reductions in supply will take place as the IEA forecasts that demand for oil will grow by about 1.2% a year for the next few years. However, as prices rise, increased supply will become available at short notice from the very extensive US shale interests where the breakeven price at the margin is $55 to $60 and this increased supply will limit further price rises. Supply will be maintained at most existing fields as they can be operated profitably at this price although many may not make a return on sunk investment at that level. The production cuts envisaged have increased the Brent Oil one month future price by just over $10 to $55. However, the five-year futures price is only $5 higher, indicating that little significant price change is expected in the next five years. Nor is a change expected in the years beyond that as the longest dated month, December 2024, is only $2 dearer … at $62.01! One explanation for the low futures price is that US shale operators are selling forward oil at prices sufficient to exploit their very considerable reserves profitably. Like coal before oil, many owners of oil reserves already realise that there are reserves that may never be realised – in truth some "jam today" is much much better than "no jam tomorrow"!

Property Prospects

In the previous investment cycle the CBRE All Property Yield Index peaked at 7.4% in November 2001, then fell steadily to a trough of 4.8% in May 2007, before rising in this cycle to a peak of 7.8% in February 2009, a yield surpassed only twice since 1970, on brief occasions when the Bank Rate was over 10%. Since then yields fell to 6.1% in 2011, rose by 0.2 percentage points in 2012 and fell steadily to 5.4% in 2015 before rising to 5.5% this year. Unlike the last two years' yields are unchanged in all components of the Index except Retail Warehouses where the yield increased by 0.5% points to 5.7%. Significantly CBRE remark "Prime yields for All Property remained relatively flat despite the uncertainty following the EU Referendum result in Q3".

Yield changes within each component of the All Property Index have been small. The main change has been an increase in yields in Central London prime offices which in the last quarter rose by 17 bps to 4.4%, presumably in response to an expected lower demand for London offices following the Brexit vote. Yields fell very slightly in all "Southern" areas. Within Shops, yield on Central London shops fell in the year to Q2 but rose 25 bp in Q3 and yields increased in the "Rest of UK", but in Scotland fell by about 10 bps. Within Industrials, yields in the East and West Midlands increased by about 25 bps, presumably a reaction to the referendum vote in important manufacturing centres.

The peak All Property yield of 7.8% in February 2009 was 4.6 percentage points higher than the 10-year Gilt, then the widest "yield gap" since the series began in 1972 and 1.4 percentage points wider than the previous record yield gap in February 1999. The 2012 yield of 6.3% marked a record yield gap of 4.8 percentage points, due

largely to the then exceptionally low 1.5% Gilt. The yield gap fell to a low of 3.3% in 2014, but rose to 3.6% last year, due mostly to a fall in gilt yields. This year a small rise in yields to 5.5% has again been offset by a 0.3 percentage points fall in gilts to 1.5%, widening the yield gap to 3.9%.

The All Property Rent Index, which apart from the brief fall in 2003, had risen consistently since 1994, fell 0.1% in the quarter to August 2008 and then fell by 12.3% in the year to August 2009. Since 2009 there have been small increases of only 0.9%, 0.1% and 0.6% in the years to August 2012, but since then rental growth has improved slightly by 2.6%, 2.9% and 5.0% in the three years to 2015 and has risen by 4.6% this year for the first time to a level above the previous peak attained in June 2008. Rent rises in the individual sectors were 8.6% Shops, 6.1% Industrials, 4.5% Offices and around 1.5% Shopping Centres and Retail Warehouses, two sectors which also had the lowest rent rises last year. Within the sectors the most notable changes, computed before any effect of the referendum, have been a further large increase of over 20% in Central London shops. Within Offices London City offices rose over 20%, but there was little change in West End offices although Suburban London, South-East and East offices all rose about 10%, but rents changed little in all peripheral areas. Within Industrials the largest increases were nearly 10% in London and about 6.0% in the South East. In all other areas much smaller increases occurred. Since the depression began eight years ago, the All Property Rent Index has risen by 2%; Shops by 3%; Offices by 8%; Industrials by 9%, but Retail Warehouses have fallen by 16%. Since the market peak of 1990/91 the CBRE rent indices, as adjusted by RPI for inflation, have all fallen: All Property 28%; Offices 32%; Shops 18%; and Industrials 31%.

Property returns as measured by IPD rose 2.9% in the year to October 2016, a much poorer return than the 14.7% achieved last year, and the 20.1% in 2014. Previous years' returns were 7.4%, 3.1%, 8.7%, 20.4% minus 14.0%, and minus 22.5% in the calendar year 2008 when in December alone the index fell a record 5.3%. The IPD income returns are approximately 5.0% per annum and changes in returns are largely due to changes in capital values. Capital returns were 8% in 2015 but in early 2016 the increase was only to 0.2% per month before falling by 0.6% in March 2016 and then by over 2% in July, subsequent to the Referendum when values, especially of London offices, fell sharply.

Forecasts for the full 2016 year and for 2017 and beyond have a notable inflexion point depending which side of the June Referendum date they are made. In August 2015 the IPF Survey Report forecast overall returns of 9.2% in 2016, subsequently modified to 7.1% in May 2016. However, in August the overall return was forecast at -0.4%, due primarily to a fall in capital values of 5.3%. The IPF comment "This represents the largest quarter-on quarter downward shift in total returns forecast by this survey to date. The last occasion the consensus Forecasts recorded negative returns was in November 2009 (of -2.6%) for that year being the eighth and final consecutive quarter of sub-zero predictions for the then current year." IPF, to their credit, confess the actual return for 2009, as shown by IPD, was plus 3.5%. IPF forecast growth in capital values for 2018, 2019 and 2020 which, together with an income return of just about 5.0%, gives returns of 5.7%, 6.8% and 7.1% respectively. The total return forecast over the four years up to and including 2020 is 3.9% per annum.

Colliers provide the most comprehensive surveyors' forecast, giving detailed consideration to each sector. The near term forecast for 2016 is an All Property return of -0.4%, similar to IPF but Colliers has a higher forecast of 2.4% for 2017 and of 4.6% for 2016-20. One source of variation may be that, while the Colliers report was published in September, three months after the referendum, the IPF forecasts were published in August having been collated up to 12 weeks previously. In contrast Colliers say that data released "suggest economic activity has shrugged off post-vote uncertainty". Colliers expect the Industrial sector to give the highest return in 2017 at 6.5% and, over the four years to 2020, 7.1% per annum. Rental growth will be higher in the Industrial sector than in other sectors with the London and the South-East areas continuing to have the greatest increases.

The Shops and Offices sectors are both expected to suffer capital declines from rising yields in 2017 and from 2016 – 2020 with total returns of 2.3% at 0.3% respectively in 2017 and 4.1% and 3.8% for 2016 – 2020. Standard Shops rents are expected to increase by 1.2% per annum in 2016 – 2020 but Shopping Centres and Retail Warehouses will have lower rental growth and rents will continue to fall for Supermarkets. Standard shop rents are expected to rise more rapidly in Central London, but very small rental falls are expected outwith the wider South-East region.

Forecasts for the office sector are broadly similar to the shop sector as falling capital values reduce total returns to 0.3% in 2017 and 3.8% per annum in 2016 – 2020. Brexit is expected to reduce demand from financial services who currently account for about 24% of City office demand but there are large requirements from media and tech firms who continue to take space and such demand may partially offset falling demand from financial services. London rents are expected to be stable at best in the second half of 2016 but to fall in 2017, particularly in the City, by 5.0%, before recovering to grow by about 1% per annum from 2016 – 2020. In the South-East a similar trend is expected with a lower amplitude. For the rest of the UK Colliers expects even more modest rental growth of 0.5% in 2016 – 2020. This year rent rises have been notable in Manchester, Swindon and Exeter but, in Scotland, not unexpectedly, Aberdeen rents fell by 12.5%, while Edinburgh and Glasgow rents were unchanged at £30 for grade A space.

Forecasters are notoriously unable to detect pivotal points such as the unexpected Brexit vote which was largely responsible for the marked change in the IPF forecasts from March 2016 to August 2016. Current forecasts are essentially for a small continuing improvement from the present position – a trend analysis. However economic growth is forecast by the OBR at 1.4% in 2017 and rising thereafter, no recession is premised, and the initial response by the economy appears much less disadvantageous than previously feared. I think that, in general, returns over the 2016 – 2020 period will be above those currently forecast.

This time last year forecasts for house prices in 2016 were optimistic. HMT's "Average of Forecasts" was for a rise of 6.1%, and the OBR forecast 6.8%, figures in line with current estimates of 5.0% by the HMT survey and 7.8% by the OBR. Increases in house prices in the twelve months to the end of October 2016 are reported as: 6.1% Halifax; 4.7% Nationwide; and 3.0% Acadata, or 3.6% excluding London and the South-East. The Acadata index includes cash purchases excluded from the Mortgage providers' figures. The downturn has been more severe in London than most regions, and as a higher percentage of houses are bought with cash in London, rises reported in the Acadata index are reduced compared to those indices excluding cash buyers.

The average annual figures mask a wide disparity over time and among the regions of England and Wales. Acadata report that prices rose by 0.4% in the month of October, a modest increase but the largest since 2.1% in February 2016, prior to the introduction of the 3% stamp duty surcharge on investment properties and on second homes, and the subsequent June Brexit vote. The annual price change in October was 3.0%, a sharp reduction from the 9.1% reported in February. In February Greater London had the highest house price growth but currently growth is lower there than every region except Wales and Yorkshire and Humberside.

It is considered that there is a high positive correlation between house price rises and transaction volumes. Certainly, this year transactions peaked at 120,000 in March and since then have been 5,000 to 10,000 lower than in 2015 and 2014 and in October were 10,000 to 20,000 lower than in the last three years. In Q3 Greater London transactions were 32% lower than in 2015, more than double the percentage drop of 14% for all England and Wales, a result consistent with Greater London having the lowest increase in price of any major English region. For 15 of the last 21 years sales have been higher in October than in September, but the October 2016 sales are about 12% lower, a change Acadata consider may be a continuing one off effect of Brexit or indicative of a longer term trend from ownership to renting.

There continues to be a great disparity in price rises among the regions, marked by the relegation of Greater London to one of three regions, together with Wales and Yorkshire and Humberside, with less than 1.0% growth. The three regions with the highest annual growth are East of England 7.0%, South East 6.5% and South West 4.7%.

Interpretation of the changes in prices is complicated by the differing reported results among the reporting agencies. The largest difference is currently between the band of 3.0% to 4.6% annual price rises comprising Acadata and the mortgage providers, together with Rightmove, and the new ONS, which returns a rise of 9.0%. The difference occurs because ONS uses a geometric mean whereas all the other providers use an arithmetic mean. The geometric index gives a reduced weighting of high value properties compared to the arithmetic mean, and in consequence, the fall of central London high prices is under-reported by the geometric based ONS system.

In Scotland house prices remain "resilient" according to Acadata, increasing by 2.4% in the year to August 2016, a higher rate than the 0.3% recorded to August 2015. The average prices are distorted by a reduction in the number of houses over £500,000 sold this year. Sales of high priced houses were brought forward to early 2015 to avoid the penal 10% LBTT for the £325,000 to £750,000 band and 12% thereafter. Throughout Scotland 31% fewer such houses were sold in H1 2016 than in H1 2015, the largest number 115, and the highest percentage of such sales, being in Edinburgh, causing the current average Edinburgh sales price to be depressed compared to last year. In Scotland a £1m house now costs £78,350 in LBTT but "only" £43,750 in SDLT in England and Wales, a difference in tax of £34,600.

The Registers of Scotland provide detailed figures up to Q3 2016. Within mainland Scotland the largest rise in price occurred in East Renfrewshire where a large number of new expensive houses were sold in Newton Mearns. Edinburgh recorded the second highest rise of 5.7%, and Aberdeen City recorded the largest fall of 7.5% as detached houses there fell 14.6%. In Edinburgh flats rose by 8.0% and anecdotal evidence indicates that price rises are very strong for refurbished flats and new flats. New flats, even those peripheral to the established residential areas, are obtaining prices of £340/ft^2 to £360/ft^2, a rise of probably over 15% compared to last year. Agents report a strong and continuing market for such properties.

The OBR expect house prices to rise by 3.4% in 2017 and by 28.5% over the next six years. HMT expect prices to rise 2.2% in 2017 and then by about 10.6% over the following three years. Forecasts of nil or 1% for 2017 are given by JLL, Savills and Knight Frank, RICS expects price rises to be 1.5% in 2017 and around 20% over the next five years.

Savills provide house price forecasts, carefully distinguishing them as second-hand, for up to five years for both Prime and Mainstream markets. The forecasts are very conservative compared to this time last year as "rarely, if ever, has economic forecasting been less certain. The myriad of Brexit outcomes …". The Mainstream UK market

is forecast to have no growth in 2017 and to grow by only 13% over five years. Scottish prices are reported to fall 2.5% next year and to grow only 9% in five years, lower than any other UK market. Savills consider that in 2017 household income, a good indicator of house price movement, will grow only 1%, less than inflation, and that employment will decrease by 0.4%. Aberdeen will continue to be a "drag" on the national figure unless oil prices rebound.

According to Savills prime markets will perform equally poorly in 2017 but grow strongly in 2019 and increase in Central London and Commuting areas up by about 20%. Scotland's prime market is expected to perform least well of all the regions and prices to rise only 12% over five years.

Savills compare prices in July 2016 with peak prices in 2007/08. Prices in all areas north of the Midlands and in Wales have fallen and by 6% in Scotland, but South-East and East regions have risen over 20%. London, a class alone, has risen 58%.

The Halifax index peaked at the £199,600 recorded in August 2007. The equivalent inflation-adjusted price in October 2016 would have been 27.89% higher, or £255,259 but the current October 2016 Halifax index price is £217,411 – a long way off! If house prices rise at about 3.5% and inflation is 2.0%, then ten more years will elapse before the August 2007 peak is regained in real terms. House prices are difficult to predict and historically errors have been large, especially around the timings of reversals or shocks. I repeat what I said last year and previously. "… the key determinant of the long-term housing market will be a shortage in supply, resulting in high prices".

Future Progress

The Group is starting to take advantage of a housing market which is stable in the Scottish Central belt and which I expect to remain stable over the next few years.

We will continue to invest in projects that require long-term planning work, but on a reduced scale. We will emphasise the completion and realisation of previously postponed development opportunities which can be built and marketed shortly, provided market conditions allow. We will seek to develop our major sites with the necessary consents and, for the largest projects, continue our analysis of innovative financial methods and joint ventures as appropriate.

While we do require a stable and liquid housing market, we do not depend on a recovery in prices for the successful development of most of our sites, as almost all of these sites were purchased unconditionally, ie without planning permission, for prices not far above their existing use value and before the 2007 house price peak. A major component of the Group's site development value lies in securing planning permission, and in its extent, and it is relatively independent of changes in house values. For development or trading properties, unlike investment properties, no change is made to the Group's balance sheet even when improved development values have been obtained. Naturally, however, the balance sheet will reflect such enhanced value when the properties are developed or sold.

The policy of the Group will continue to be considered and conservative, but responsive to market conditions and opportunistic. The mid-market share price on 21 December 2016 was 85.5p, a not insignificant discount to the NAV of 152.88p as at 30 June 2016. The Board does not recommend a final dividend, but intends to restore dividends when profitability and consideration for other opportunities and obligations permit.

Conclusion
The UK recovered from the Great Recession of 2008 and the longest depression since 1873-96 but growth since then, although restored to nearly the normal trend level, has been poor, while unusually there has been no rebound of above average growth after the recession, or "catch up".

The continuing restrictive fiscal policies have delayed a return to the pre-recession growth level and the long depression and credit controls have damaged the economy's productivity and its long-term supply capability. The opportunity to expand demand and to invest in capital projects at low interest cost has been neglected contributing to the virtual stagnation of productivity growth. A fiscal stimulus without an improvement in productivity may threaten the inflation target. Fortunately, at long last, the view is gaining credence that the inflation level is "the inflation level" but it is not the "holy grail" of economic management nor even a necessary pre-condition for a successful growing economy, but one of many target indicators. The crisis in the EZ is a more obvious example of the consequences of such misplaced emphasis.

The management of the economy, the inflation target, the fiscal balance, the "golden rules" are derived from forecasts based on economic modelling. Such forecasting has proved fallible, at times contributing to, if not causing, severe economic damage. Past examples include the Great Depression, the policies before the New Deal, the recent Great Recession, the EMU, including particularly the extensive UK lobbying to join the EZ, the now waning fixation with the inflation target, and most recently and, quite vividly, the forecast short term consequences of a proposal to leave the EU. Patently, forecasting will always be imprecise, but experiments on refining their

accuracy has shown that the skills of experts in their own fields are not the skills required for more accurate forecasting. Returns from investing in defining, isolating and using these skills and techniques would be high.

Forecasts for the final relationship between the UK and the EU and for the economic consequences require to be considered in the knowledge of the uncertainties of such forecasts. My forecast is the economic penalty for withdrawing from the EU will be measurable but manageable. This political choice is but one of many that may not be economically optimal – perhaps economists should accept that at the margin sometimes other priorities are preferred. This might even improve their forecasting.

I D Lowe
Chairman
22 December 2016

Consolidated income statement for the year ended 30 June 2016

	Note	**2016 £000**	2015 £000
Revenue			
Revenue from development property sales		**438**	440
Gross rental income		**351**	334
Property charges		**(241)**	(224)
Net rental and related income		**548**	550
Cost of development property sales		**(391)**	(272)
Administrative expenses		**(635)**	(726)
Other income		**15**	28
Net operating loss before investment property disposals and valuation movements	5	**(463)**	(420)
Gain on sale of investment properties		**99**	-
Valuation gains on investment properties		**675**	1,100
Valuation losses on investment properties		**(185)**	-
Net valuation gains on investment properties		**589**	1,100
Operating profit		**126**	680
Financial income	7	**1**	1
Financial expenses	7	**(22)**	(116)
Net financing costs		**(21)**	(115)
Profit before taxation		**105**	565
Income tax	8	**-**	-
Profit for the financial period attributable to equity holders of the Company		**105**	565
Profit per share			
Basic and diluted profit per share (pence)	9	**0.89p**	4.79p

The notes on pages 30 – 49 form an integral part of these financial statements.

Consolidated balance sheet as at 30 June 2016

	Note	**2016 £000**	2015 £000
Non current assets			
Investment property	10	**10,905**	10,515
Property, plant and equipment	11	**15**	24
Investments	12	**1**	1
Total non-current assets		**10,921**	10,540
Current assets			
Trading properties	13	**11,166**	11,418
Trade and other receivables	14	**153**	96
Cash and cash equivalents	15	**103**	131
Total current assets		**11,422**	11,645
Total assets		**22,343**	22,185
Current liabilities			
Trade and other payables	16	**(698)**	(645)
Interest bearing loans and borrowings	17	**-**	(3,530)
Total current liabilities		**(698)**	(4,175)
Non current liabilities			
Interest bearing loans and borrowings	17	**(3,630)**	(100)
Total liabilities		**(4,328)**	(4,275)
Net assets		**18,015**	17,910
Equity			
Issued share capital	21	**2,357**	2,357
Capital redemption reserve	22	**175**	175
Share premium account	22	**2,745**	2,745
Retained earnings		**12,738**	12,633
Total equity attributable to equity holders of the parent Company		**18,015**	17,910
NET ASSET VALUE PER SHARE		**152.88p**	151.99p

The financial statements were approved by the board of directors on 22 December 2016 and signed on its behalf by:

ID Lowe
Director

The notes on pages 30 -49 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 30 June 2016

	Share capital £000	Capital redemption reserve £000	Share premium account £000	Retained earnings £000	Total £000
At 1 July 2015	2,357	175	2,745	12,633	**17,910**
Profit for the year	-	-	-	105	**105**
At 30 June 2016	**2,357**	**175**	**2,745**	**12,738**	**18,015**
At 1 July 2014	2,357	175	2,745	12,068	17,345
Profit for the year	-	-	-	565	565
At 30 June 2015	2,357	175	2,745	12,633	17,910

Consolidated cash flow statement for the year ended 30 June 2016

	2016 £000	2015 £000
Cash flows from operating activities		
Profit for the year	**105**	565
Adjustments for :		
Gain on sale of investment property	**(99)**	-
Gains on revaluation of investment property	**(490)**	(1,100)
Depreciation	**11**	14
Net finance expense	**22**	116
Operating cash flows before movements in working capital	**(451)**	(405)
Decrease in trading properties	**252**	80
(Increase) in trade and other receivables	**(57)**	(29)
Increase in trade and other payables	**30**	3
Cash absorbed by the operations	**(226)**	(351)
Interest received	**1**	1
Net cash outflow from operating activities	**(225)**	(350)
Investing activities		
Proceeds from sale of investment property	**199**	-
Acquisition of property, plant and equipment	**(2)**	(3)

Cash flows from investing activities	**197**	(3)
Increase in borrowings	**-**	450
Cash flows from financing activities	**-**	450
Net increase in cash and cash equivalents	**(28)**	97
Cash and cash equivalents at beginning of year	**131**	34
Cash and cash equivalents at end of year	**103**	131

1 Reporting entity

Caledonian Trust PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 30 June 2016 comprise the Company and its subsidiaries as listed in note 8 in the parent Company's financial statements (together referred to as "the Group"). The Group's principal activities are the holding of property for both investment and development purposes.

2 Statement of Compliance

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards and its interpretation as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company financial statements in accordance with IFRS; these are presented on pages 50 to 69.

3 Basis of preparation

The financial statements are prepared on the historical cost basis except for available for sale financial assets and investment properties which are measured at their fair value.

The preparation of the financial statements in conformity with Adopted IFRSs requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been presented in pounds sterling which is the functional currency of all companies within the Group. All financial information has been rounded to the nearest thousand pounds.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in Note 18.

In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group and Company finance their day to day working capital requirements through related party loans (see note 23). The related party lender has indicated its willingness to provide further funds to facilitate the continued construction of certain properties during 2017.

The Directors have prepared projected cash flow information for the period ending twelve months from the date of their approval of these financial statements. These forecasts assume the Group will make property sales in the normal course of business to provide sufficient cash inflows to allow the Group to continue to trade.

Should these sales not complete as planned, the directors are confident that they would be able to sell sufficient other properties within a short timescale to generate the income necessary to meet the Group's liabilities as they fall due.

For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Areas of estimation uncertainty and critical judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following notes:

- *Valuation of investment properties (note 10)*
  The fair value has been calculated using third party valuations provided by external independent valuers. The valuations are based upon assumptions including future rental income, anticipated void cost, the appropriate discount rate or yield. The independent valuers also take into consideration market evidence for comparable properties in respect of both transaction prices and rental agreements.

- *Valuation of trading properties (note 13)*
  Trading properties are carried at the lower of cost and net realisable value. The net realisable value of such properties is based on the amount the Company is likely to achieve in a sale to a third party. This is then dependent on availability of planning consent and demand for sites which is influenced by the housing and property markets.

- *Deferred Tax (note 20)*
  A significant proportion of the Group's deferred tax asset relates to differences between the carrying value of investment properties and their original tax base. A decision has been taken not to recognise the asset on the basis of the uncertainty that surrounds the availability of future taxable profits.

4 Accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The financial statements incorporate the financial statements of the Company and all its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to determine the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases.

Revenue
Rental income from properties leased out under operating leases is recognised in the income statement on a straight line basis over the term of the lease. Costs of obtaining a lease and lease incentives granted are recognised as an integral part of total rental income and spread over the period from commencement of the lease to the earliest termination date on a straight line basis.

Revenue from the sale of trading properties is recognised in the income statement on the date at which the significant risks and rewards of ownership are transferred to the buyer with proceeds and costs shown on a gross basis.

Other income
Other income comprises income from agricultural land and other miscellaneous income.

Finance income and expenses
Finance income and expenses comprise interest payable on bank loans and other borrowings. All borrowing costs are recognised in the income statement using the effective interest rate method. Interest income represents income on bank deposits using the effective interest rate method.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the charge / credit is recognised in equity. Current tax is the expected tax payable on taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, adjusted for prior years under and over provisions.

Deferred tax is provided using the balance sheet liability method in respect of all temporary differences between the values at which assets and liabilities are recorded in the financial statements and their cost base for taxation purposes. Deferred tax includes current tax losses which can be offset against future capital gains. As the carrying value of the Group's investment properties is expected to be recovered through eventual sale rather than rentals, the tax base is calculated as the cost of the asset plus indexation. Indexation is taken into account to reduce any liability but does not create a deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Investment properties

Investment properties are properties owned by the Group which are held either for long term rental growth or for capital appreciation or both. Properties transferred from trading properties to investment properties are revalued to fair value at the date on which the properties are transferred. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

The cost of investment property includes the initial purchase price plus associated professional fees. Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised during the period of construction. Subsequent expenditure on investment properties is only capitalised to the extent that future economic benefits will be realised.

Investment property is measured at fair value at each balance sheet date. External independent professional valuations are prepared at least once every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Purchases and sales of investment properties

Purchases and sales of investment properties are recognised in the financial statements at completion which is the date at which the significant risks and rewards of ownership are transferred to the buyer.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at varying rates calculated to write off cost to the expected current residual value by equal annual instalments over their estimated useful economic lives. The principal rates employed are:

Plant and equipment	-	20.0 per cent
Fixtures and fittings	-	33.3 per cent
Motor vehicles	-	33.3 per cent

Trading properties

Trading properties held for short term sale or with a view to subsequent disposal in the near future are stated at the lower of cost or net realisable value. Cost is calculated by reference to invoice price plus directly attributable professional fees. Net realisable value is based on estimated selling price less estimated cost of disposal.

Financial assets

Trade and other receivables
Trade and other receivables are initially recognised at fair value and then stated at amortised cost.

Financial instruments

Available for sale financial assets
The Group's investments in equity securities are classified as available for sale financial assets. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value and changes therein, other than Impairment losses, are recognised directly in equity. The fair value of available for sale investments is their quoted bid price at the balance sheet date. When an investment is disposed of, the cumulative gain or loss in equity is recognised in profit or loss. Dividend income is recognised when the company has the right to receive dividends either when the share becomes ex dividend or the dividend has received shareholder approval.

Cash and cash equivalents

Cash includes cash in hand, deposits held at call (or with a maturity of less than 3 months) with banks, and bank overdrafts. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are shown within current liabilities on the balance sheet and included with cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities

Trade payables

Trade payables are non-interest-bearing and are initially measured at fair value and thereafter at amortised cost.

Interest bearing loans and borrowings

Interest-bearing loans and bank overdrafts are initially carried at fair value less allowable transactions costs and then at amortised cost.

New Standards and interpretations not yet adopted

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee has recently issued the following new standards and amendments which are effective for annual periods beginning on or after 1 January 2016, unless stated otherwise, and have not been applied in preparing these consolidated financial statements.

- *IFRS 9 Financial Instruments: Classification and Measurement* which is the first phase of a wider project to replace IAS 39.

  Financial Instruments: Recognition and Measurement, replaces the current models for classification measurement of financial instruments. Financial assets are to be classified into two measurement categories: fair value and amortised cost. Classification will depend on an entity's business model and the characteristics of contractual cash flow of the financial instrument. The standard is effective for annual periods beginning on or after 1 January 2018.

  As at the time of publication of these financial statements, the IASB is re-deliberating the requirements for classification and measurement in IFRS 9 while the requirements of latter phases of IFRS 9 are in development and therefore remain uncertain.

- *IFRS 15 Revenue fom contracts with customers*

The standard specifies how and when revenue is recognised, using a principles based five-step model. The standard is effective for accounting periods beginning on or after 1 January 2018 but has not yet been endorsed.

- *IFRS 16 Leases*

This standard will eliminate the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for accounting periods beginning on or after 1 January 2-19 but has not yet been endorsed.

Operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Board of Directors ("The Board"), which is the Group's chief operating decision maker. The directors review information in relation to the Group's entire property portfolio, regardless of its type or location, and as such are of the opinion that there is only one reportable segment which is represented by the consolidated position presented in the primary statements.

5 Operating profit

	2016	2015
	£000	£000
The operating profit is stated after charging :		
Depreciation	**11**	14
Amounts received by auditors and their associates in respect of:		
- Audit of these financial statements (Group and Company)	**12**	7
- Audit of financial statements of subsidiaries pursuant to legislation	**6**	6
	======	======

6 Employees and employee benefits

	2016	2015
	£000	£000
Employee remuneration		
Wages and salaries	**373**	412
Social security costs	**39**	43
Other pension costs	**30**	31
	442	486
	======	=======

Other pension costs represent contributions to defined contribution plans.

The average number of employees during the year was as follows:

	No.	No.
Management	**2**	2
Administration	**3**	3
Other	**3**	4
	8	9
	======	=======

Remuneration of directors	**2016** **£000**	2015 £000
Directors' emoluments	**228**	251
Company contributions to money purchase pension schemes	**25**	26
	======	======

	Salary and	Pension	**2016**	2015

Director	Fees £000	Benefits £000	Contributions £000	**Total £000**	Total £000
ID Lowe	87	5	-	**92**	115
MJ Baynham	125	3	25	**153**	153
RJ Pearson	8	-	-	**8**	9
	220	**8**	**25**	**253**	277

7 Finance income and finance expenses

	2016 £000	2015 £000
Finance income		
Interest receivable:		
- on bank balances	**1**	1
Finance expenses		
Interest payable:		
- Other loan interest	**22**	21
- Loan stock repayable within five years	**-**	95
	22	116

8 Income tax

There was no tax charge/(credit) in the current or preceding year.

	2016 £000	2015 £000
Profit before tax	**105**	565
Current tax at 20% *(2015 : 20.75%)*	**21**	117
Effects of:		
Expenses not deductible for tax purposes	**9**	20
Indexation on chargeable gains	**(20)**	-
Losses carried forward	**88**	91
Revaluation of property not taxable	**(98)**	(228)
Total tax charge	**-**	**-**

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly.

An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company’s future current tax charge accordingly.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to

reduce the actual tax liability which would crystallise in the event of a disposal of the asset (see note 20).

9 Profit per share

Basic profit per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period as follows:

	2016	2015
	£000	£000
Profit for financial period	**105**	565
	======	======
	No.	No.
Weighted average no. of shares: for basic earnings per share and for diluted earnings per share	**11,783,577**	11,783,577
	========	========
Basic profit per share	**0.89p**	4.79 p
Diluted profit per share	**0.89p**	4.79 p

The diluted figure per share is the same as the basic figure per share as there are no dilutive shares.

10 Investment properties

	2016	2015
	£000	£000
Valuation		
At 30 June 2015	**10,515**	9,415
Sold in year	**(100)**	-
Revaluation in year	**490**	1,100
Valuation at 30 June 2016	**10,905**	10,515
	========	========

Investment properties were valued at £9,505,000 as at 30 June 2016 by Montagu Evans, Chartered Surveyors, external valuers not connected with the Group. They were valued at fair value in accordance with the RICS Valuation – Professional Standards (January 2014, revised April 2015) published by the Royal Institution of Chartered Surveyors (RICS). The valuations are arrived at by reference to market evidence of transaction prices and completed lettings for similar properties. The properties have been valued individually and not as part of a portfolio and no allowance has been made for expenses of realisation or for any tax which might arise. They assume a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The valuations reflect usual deductions in respect of purchaser's costs, SDLT and LBTT as applicable at the valuation date. The valuer makes various assumptions including future rental income, anticipated void cost, the appropriate discount rate or yield.

One investment property was valued at £1,400,000 as at 30 June 2016 by Rettie & Co, an independent firm of property specialists not connected with the Group. The valuation was undertaken by a Chartered Surveyor in accordance with the RICS Standards and willing buyer and seller referred to above. The market value was arrived at having regard to local comparable data, adjusted to reflect the individual circumstances and unique characteristics of the valuation subjects.

The 'review of activities' within the Chairman's statement provides the current status of the Group's property together with an analysis of the 'property prospects' for 2017 and beyond.

The historical cost of investment properties held at 30 June 2016 is £9,521,406 (2015: £9,620,837). The cumulative amount of interest capitalised and included within historical cost in respect of the Group's investment properties is £451,000 (2015: £476,000).

11 Property, plant and equipment

	Motor Vehicles £000	Fixtures and fittings £000	Other equipment £000	Total £000
Cost				
At 30 June 2014	18	14	62	94
Additions in year	-	-	3	3
At 30 June 2015	18	14	65	97
Depreciation				
At 30 June 2014	11	9	39	59
Charge for year	2	4	8	14
At 30 June 2015	13	13	47	73
Net book value				
At 30 June 2015	5	1	18	24

	Motor Vehicles £000	Fixtures and fittings £000	Other equipment £000	Total £000
Cost				
At 30 June 2015	18	14	65	97
Additions in year	-	-	2	2
At 30 June 2016	18	14	67	99
Depreciation				
At 30 June 2015	13	13	47	73
Charge for year	3	1	7	11
At 30 June 2016	16	14	54	84
Net book value				
At 30 June 2016	**2**	**-**	**13**	**15**

12 Investments

	2016 £000	2015 £000
Available for sale investments		

At the start of the year	**1**	-
Purchased in year	**-**	1
Available for sale financial assets	**1**	1

13 Trading properties

	2016	2015
	£000	£000
At start of year	**11,418**	11,498
Additions	**139**	190
Sold in year	**(391)**	(270)
At end of year	**11,166**	11,418

14 Trade and other receivables

	2016	2015
	£000	£000
Amounts falling due within one year		
Other debtors	**67**	**68**
Prepayments and accrued income	**86**	**28**
	153	96

The Group's exposure to credit risks and impairment losses relating to trade receivables is given in note 18.

15 Cash and cash equivalents

	2016	2015
	£000	£000
Cash	**103**	131

Cash and cash equivalents comprise cash at bank and in hand. Cash deposits are held with UK banks. The carrying amount of cash equivalents approximates to their fair values. The company's exposure to credit risk on cash and cash equivalents is regularly monitored (note 18).

16 Trade and other payables

	2016 £000	2015 £000
Accruals and other creditors	**698**	645
	======	======

The Group's exposure to currency and liquidity risk relating to trade payables is disclosed in note 18.

17 Other interest bearing loans and borrowings

The Group's interest bearing loans and borrowings are measured at amortised cost. More information about the Group's exposure to interest rate risk and liquidity risk is given in note 18.

Current liabilities

	2016 £000	2015 £000
Floating rate unsecured Loan Notes 2016	**-**	2,725
Unsecured loan	**-**	805
	-	3,530
	=======	========
Non current liabilities		
Unsecured loans	**3,630**	100
	=======	=======

Terms and debt repayment schedule

Terms and conditions of outstanding loans and loan stock were as follows:

	Currency	Nominal interest rate	2016 Fair value £000	2016 Carrying amount £000	2015 Fair value £000	2015 Carrying amount £000
Unsecured loan	GBP	Base +3%	**3,530**	**3,530**	805	805
Floating rate unsecured loan stock	GBP	Base + 3%	**-**	**-**	2,725	2,725
Unsecured loan	GBP	Base + 3%	**100**	**100**	100	100
			3,630	**3,630**	3,630	3,630

The unsecured loan of £3,530,000 is repayable in 12 months and one day after the giving of notice by the lender. Interest is charged at 3% over Bank of Scotland base rate but the lender varied its right to the margin over base rate until further notice.

An unsecured loan of £100,000 is repayable in July 2017. Interest is charged at a margin of 3% over Bank of Scotland base rate.

18 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2016		2015	
	Fair value	**Carrying amount**	Fair value	Carrying amount
	£000	**£000**	£000	£000
Trade and other receivables	**153**	**153**	96	96
Cash and cash equivalents	**103**	**103**	131	131
	256	**256**	227	227
Loans from related parties	**3,630**	**3,630**	3,630	3,630
Trade and other payables	**698**	**698**	645	645
	4,328	**4,328**	4,275	4,275

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Available for sale financial assets – as such assets are listed, the fair value is determined at the market price.

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

Overview of risks from its use of financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and oversees compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development.

The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations.

As the Group operates wholly within the United Kingdom, there is currently no exposure to currency risk.

The main risks arising from the Group's financial instruments are interest rate risks and liquidity risks. The board reviews and agrees policies for managing each of these risks, which are summarised below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, cash held at banks and its available for sale financial assets.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The majority of rental payments are received in advance which reduces the Group's exposure to credit risk on trade receivables.

Other receivables

Other receivables consist of amounts due from a company in which the Group holds a minority investment.

Available for sale financial assets

The Group does not actively trade in available for sale financial assets.

Bank facilities

At the year end the Company had no bank loan facilities available *(2015: Nil).*

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2016	2015
	£000	£000
Available for sale investments	**1**	1
Other receivables	**67**	68
Cash and cash equivalents	**103**	131
	171	200

The Group does not have an allowance for impairment on trade receivables as, based on historical experience, management does not consider that such an impairment is required.

Credit risk for trade receivables at the reporting date was all in relation to property tenants in United Kingdom.

The Group's exposure is spread across a number of customers.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation. Whilst the directors cannot envisage all possible circumstances, the directors believe that, taking account of reasonably foreseeable adverse movements in rental income, interest or property values, the Group has sufficient resources available to enable it to do so.

The Group's exposure to liquidity risk is given below

30 June 2016 £'000	Carrying amount	Contractual cash flows	6 months or less	6-12 months	2-5 years
Unsecured loan	3,530	3,548	9	9	3,530
Unsecured loan	100	107	2	2	103
Trade and other payables	698	698	698	-	-

30 June 2015 £'000	Carrying amount	Contractual cash flows	6 months or less	6-12 months	2-5 years
Floating rate unsecured loan stock	2,725	2,774	48	2,726	-
Unsecured loan	805	817	12	805	-
Unsecured loan	100	107	2	2	103
Trade and other payables	645	645	645	-	-

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group borrowings are at floating rates of interest based on LIBOR or Base Rate.

The interest rate profile of the Group's borrowings as at the year end was as follows:

	2016 £000	2015 £000
Unsecured loan	**3,530**	**805**
Unsecured loan	**100**	**100**
Floating rate instruments – financial liabilities	**-**	**2,725**
	=======	=======

The weighted average interest rate of the floating rate borrowings was 3.5% *(2015: 3.5%)*. As set out in Note 17, the lender varied its right to the margin of interest above base rate until further notice and so the rate of interest charged in the year is 0.5%.

A 1% movement in interest rates would be expected to change the Group's annual net interest charge by £36,300 *(2015: £36,300)*.

19 Operating leases

Leases as lessors
The Group leases out its investment properties under operating leases. The future minimum receipts under non-cancellable operating leases are as follows:

	2016 £000	2015 £000
Less than one year	**221**	**146**
Between one and five years	**418**	**310**
Greater than five years	**216**	**284**

855	**740**
=====	=====

The amounts recognised in income and costs for operating leases are shown on the face of the income statement.

20 Deferred tax

At 30 June 2016, the Group has a potential deferred tax asset of £971,000 (*2015: £*971,000) of which £74,000 (*2015: £153,000*) relates to differences between the carrying value of investment properties and the tax base. In addition the Group has tax losses which would result in a deferred tax asset of £897,000 (*2015: £818,000*). This has not been recognised due to the uncertainty over the availability of future taxable profits.

Movement in unrecognised deferred tax asset

	Balance 1 July 14 at 20%	Additions/ reductions	Balance 30 June 15 at 18%	Additions/ reductions	**Balance 30 Jun 16 at 18%**
	£000	£000	£000	£000	**£000**
Investment properties	321	(168)	153	(79)	**74**
Tax losses	841	(23)	818	79	**897**
Total	1,162	(191)	971	-	**971**

21 Issued share capital

	30 June 2016		30 June 2015	
	No	**£000**	No.	£000
Issued and fully paid				
Ordinary shares of 20p each	**11,783,577**	**2,357**	11,783,577	2,357
	========	=======	========	=======

Holders of ordinary shares are entitled to dividends declared from time to time, to one vote per ordinary share and a share of any distribution of the Company's assets.

22 Capital and reserves

The capital redemption reserve arose in prior years on redemption of share capital. The reserve is not distributable.

The share premium account is used to record the issue of share capital above par value. This reserve is not distributable.

23 Related parties

Transactions with key management personnel

Transactions with key management personnel consist of compensation for services provided to the Company. Details are given in note 6.

Other related party transactions

The parent Company has a related party relationship with its subsidiaries.

The Group and Company has an unsecured loan due to Leafrealm Limited, a company of which ID Lowe is the controlling shareholder. The balance due to this party at 30 June 2016 was £3,530,000 (*2015: £3,530,000*) with interest payable at 3% over Bank of Scotland base rate per annum. Leafrealm Limited varied its right to the margin of interest over base rate until further notice. Interest charged in the year amounted to £17,698 *(2015: £95,000).*

The Group and Company has an unsecured loan from Mrs V Baynham, the wife of a director. This is on normal commercial terms. The balance due to this party at 30 June 2016 was £99,999 (*2015: £99,999*) with interest payable at 3% over Bank of Scotland base rate per annum. Interest charged in the year amounted to £4,382 *(2015: £nil).* The loan is due to be repaid on 1 July 2017.

Contracting work on certain of the Group's development and investment property sites has been undertaken by Leafrealm Land Limited, a company under the control of ID Lowe. The value of the work done by Leafrealm Limited since 2011 has been accrued in the accounts for the year to 30 June 2016 and amounts to a total of £44,627 at rates which do not exceed normal commercial rates.