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31 March 2021

Caledonian Trust plc

("Caledonian Trust", the "Company" or the "Group")

Unaudited interim results for the six months ended 31 December 2020

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its unaudited interim results for the six months 31 December 2020.

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Introduction

The Group made a pre-tax loss of £327,000 in the six months to 31 December 2020 compared with a pre-tax loss of £196,000 for the same period last year. The loss per share for the six months to 31 December 2020 was 2.77p and the NAV per share as at 31 December 2020 was 201.7p compared with a loss per share of 1.66p and a NAV per share of 202.01p last year. The Group's emphasis will continue to be to secure, improve and realise the development value in our property portfolio.

Review of Activities

I provided a comprehensive review of activities in my statement accompanying our audited results for the year ended 30 June 2020, released in December 2020.

The Group's property investment business continues - but is changing as a result of the conditional sale of St. Margaret's House ("St Margaret's"), our investment property held for development. However, the rate of change has slowed due to the extended time taken, partially due to Covid-19 restrictions earlier last year, to gain planning consent for the Reserved Matters application lodged by the purchaser, Drum Property Group ("Drum"), on 24 September 2019, but which consent was only issued on 14 August 2020. The sale is now conditional solely on Drum securing a pre-let of the student housing element of the development, which under the missives in relation to the proposed disposal of St. Margaret's is required to be achieved by 30 June 2021. The effect of the current uncertainty caused by Covid-19 to teaching and travel on University entrance rolls and their rental receipts from student accommodation has resulted in the widespread postponement of procurement of further student accommodation, which we currently believe is likely to result in a further delay in realising the sale of St. Margaret's. We expect to have better understanding regarding the timing of the proposed disposal of St. Margaret's by 30 June 2021. We continue to hold a high yielding retail parade, a high yielding retail / industrial property, our North Castle Street offices and four central Edinburgh garage investments.

As announced on 16 December 2020, we concluded unconditional missives for the sale of Ardpatrik Estate for £2.7m in cash with completion originally on 24 March 2021 but, by mutual agreement, completion has been delayed until late April 2021.

We completed the construction of the five new house units in the listed former farm steading on our site at Brunstane and commenced marketing in July 2020 following the lifting of Covid-19 restrictions. The sales of all five properties have now completed, two prior to 31 December 2020 and the other three in the past month, all at prices in excess of their home report valuations, which itself was in excess of our budgeted figures, for a combined consideration of £2.66m or £360/ft².

We have recently issued tender documentation for the construction of the next phase of five new houses over 8,650ft² to form the east most courtyard of the farm steading area with a view to commencing construction of this next phase in early summer 2021. The application for consent for 12 new houses in addition to the large farmhouse in the Stackyard field to the east of the steading continues through the planning process and it is expected that consent for this phase will be granted in the next few months.

Investment in all other development sites has been delayed, primarily because of current, very restrictive, credit conditions. The increased demand for family homes within commutable distance of Edinburgh has resulted in making many of these sites more attractive. Major road improvements locally are bringing more of these sites within acceptable commuting times. We will extend our development programme to such sites whenever conditions permit.

As announced on 14 July 2020, Leafrealm Limited, a company controlled by me, provided an additional loan of £115,000 to the Company, all of which has been drawn down.

Economic Prospects

Economic prospects currently relate less to that discipline than to the disciplines of epidemiology, molecular biology and statistics. The intrinsic danger of the Covid-19 plague is starkly illustrated in economic terms. A “safe” investment that doubled every eight years would represent a compound yield of 9.03%. In investment terms, such a return represents an outstanding opportunity, but in epidemiological terms such a compound increase is catastrophic, as it represents the rate at which the severity of the disease compounds with age. A 0.5% chance of serious illness at the age of 30 increases to about 32% by the age of 72.

Covid-19, caused by the Coronavirus SARS-CoV-2, could have devastated the economy as other plagues have through the centuries. Indeed, it has already caused a UK recession of 10%, the largest since the Great Frost in 1709. That cold spell persisted for three months, lasting into the late Spring and was followed by flooding from the eventual thaw, ruining crops and causing famine, disease and death, resulting in a 23% fall in GDP.

Another virus caused the Spanish flu in 1918 – 1922, which claimed about 50m lives. The death toll from subsequent coronavirus diseases was less than 1,000 from SARS and MERS. Death tolls from other virus epidemics include 10,000 from Ebola, 200,000 from Swine flu but over 1m from Russian flu 1889, Asian flu 1952 and Hong Kong flu 1968. Covid-19’s toll is already over 2.6m.

Other plagues caused by other pathogens have caused greater economic damage. The Plague, the black death, the bacterial curse of the Western world for nearly 200 years, killed 10% of the Roman Mediterranean population in AD 165-180, while the later Justinian plague killed 55% of those in the Western European Roman empire in the sixth century. Its manifestation in Europe as the “Black Death” in the 14th century killed about 40% of that population. The highest death toll from a plague occurred in the “New World” where over several centuries the imported smallpox virus, Variola major, killed 93% of the indigenous population.

Until recently, the devastation caused by such pandemics was considered historic. Indeed, in 1962 the Nobel prize winner, Professor Sir Frank Burnet declared the virtual elimination of “infectious diseases”. And so it then appeared. In the 19th century improvements to water and sewage systems, rodent control and better nutrition controlled infectious diseases. Subsequently antibiotics and vaccines cured bacterial diseases and pre-empted viral diseases. Sir Frank’s complacency was confirmed by the ephemeral nature of subsequent plagues such as SARS, MERS, Ebola and various “flus” that proved short-lived. Even the spread of the HIV virus, killing over 31m people, did not set aside such complacency, as it was deemed controllable by social behaviour and, latterly, by drugs. Sir Frank Burnet was proved wrong by the long-term and continuing changes in human behaviour, chiefly those of closer contact with different ecologies, higher population densities and more rapid and extensive travel. Such conditions allow

diseases to transmit easily, spread quickly and disseminate widely. Between 1940 and 2004, 335 new infectious diseases were noted in humans, of which 60% leaped from animals, mostly wildlife.

Smallpox has a long pedigree, having been found in Egyptian mummies, but its origin is unknown. It was not widely distributed, being absent in the New World where 93% died on its introduction, so indicating it was not endemic in humans, but arising in a specified geographic area. “New” virus diseases frequently have animal origins – SARS from horseshoe bats, MERS from camels via bats and SARS-CoV-2 from bats, HIV from other primates, certain influenzas from avian flu and measles from the rinderpest virus in farmed cattle. Many of these transmissions seem likely to have occurred as a result of close contact with animals, probably associated with farming and animal domestication. Farming, commencing in about 10,000BC in the fertile crescent of the Middle East, was necessarily associated with settled close communities whose increased economic output permitted such higher denser populations. As many virus diseases “jumping” in uncertain ways between species are then transmitted by air, and have very short half-lives outside the host, these denser settled populations facilitated the subsequent spread and the transmission of the “jumped” diseases.

In early farming communities the spread of any such “new” disease would have been limited by the separation between communities and by the infrequency of communication between them, even over short distances. It is reasonable to postulate that many “new” diseases ran their course confined to a local community where at times they may all have perished, so eliminating the disease or, possibly, the few survivors gained immunity and so did not develop it and then transmit it. Such conditions, restricting the spread of disease, are self-evidently diametrically opposed to those prevailing today in the Western world.

Treatments to prevent disease caused by viruses have, until the recent success of the HIV virucides, been via vaccines, a name originating from *Vacchus*, a cow, originally used as a source of live but attenuated virus to create immunity. Vaccines have been developed against 24 major virus diseases, including Rubella, Measles, Diphtheria²⁰⁸ and Smallpox, effective to over 90% and against influenza but effective only to about 40%. Historically, these vaccines took many years from the isolation of the virus to the licencing of the vaccine – nine years for measles and as long as 20 years for polio. An exceptional feat of scientific endeavour and skill combined with administrative efficiency, including 24 hour working, has produced a vaccine in a year – and not just one vaccine but several all based on four different methods of introducing SARS-CoV-2’s specific spike proteins into the body, so triggering a response from the body’s immune system and preparing its defence systems to counter any subsequent real attack. The astonishingly rapid development of vaccines is a tribute to the discoveries over many years of the biological sciences: as the comedian, Eddie Cantor says: it takes 20 years to be an overnight success.

One method involving inactivated whole virus is being produced by Valneva in its Scottish plant. The virus’ genetic material is destroyed, but the protein on the spikes of the virus, allowing access to the host cell, is recognised by the host and triggers the host’s defensive system, boosting immunity to subsequent infections. This method is currently used for flu and some other vaccines, and is now being used by Sinovac and Sinopharm in China and Bharat Biotech in India for their Covid-19 vaccines. A second established vaccine system uses an Adenovirus into which a gene from SARS-CoV-2 which codes for the SARS-CoV-2 spike protein has been introduced. This imported gene instructs the host cell to make the spike protein characteristic of SARS-CoV-2 and its production activates the host’s antigen system and other defence mechanisms. This method is used in both the Oxford / AstraZeneca and the Janssen vaccines.

Two other “new” vaccine systems have been developed. The genetic material of SARS-CoV-2 is mRNA, not DNA. In one new system the mRNA (messenger ribonucleic acid) strand is produced chemically, i.e., synthesised and not, unlike other vaccines, produced biologically by growing “natural” live cultures. “Chemical” synthesis has the great advantage of allowing the mRNA to be altered easily to give different results as may be necessary, for example, to combat future variants of the SARS-CoV-2. mRNA, including the virus gene that encodes for the spike protein, is synthesised but the whole virus genome is not synthesised. This synthetic mRNA harnesses the host cells to produce the spike proteins which activate the immune system, but as the genetic material is incomplete the virus is not reproduced. The technique is used by BioNTech / Pfizer and Moderna, both of whose vaccines are approved.

The other new system developed by Novavax and GlaxoSmithKline, and Sanofi Pasteur directly introduces the virus' spike protein, fortified by an activating adjuvant, into the body stimulating the body's immune system to attack the spike protein and so confer immunity. These systems are currently in combined phase 1 and 2 clinical trials. Like the Pfizer system, this system is synthetic and so facilitates modification at short notice and can be scaled up quickly, allowing vaccines for any "variant" of the Covid-19 virus to be easily produced and quickly manufactured on a large scale.

Certainly, speed has been of the essence. The Covid-19 virus has a high reproduction rate and a high mortality rate amongst older people even after intensive treatment. For women mortality is 5% at 75, rising to 10% at 85, and for men about 10% at 75 rising to 20% at 85. For both sexes mortality below 50 is less than 1%.

There are 6.5m people over 75 in the UK and unchecked it seems likely at least 10% or 650,000 would die, even if hospitalised. Without such hospitalisation, due to the hospital facilities being overwhelmed, at least 1m would probably die. In such circumstances it is difficult to imagine anything other than a major economic breakdown. The "lockdown" and safety procedures have saved hundreds of thousands of lives but at great economic cost. It is difficult to envisage that such economic cost could be supported for more than 18 months without itself causing an economic breakdown. The UK's great achievement has been the development, delivery and deployment of effective vaccines that will permit the removal of current restrictions without, in the worst case, unacceptable resultant rises in disease and death. Truly, the economy has been rescued.

The questions now are how quickly will economic output be restored to its former health and will output grow at a rate at least equivalent to that prevailing pre-pandemic? And, if so, how and when can a higher growth rate be achieved? The present recession bears no relationship to the only larger recession, the Great Frost in 1709, which was caused by freak weather conditions ruining an agricultural economy. But equally the present recession bears little resemblance to recessions over the last 100 years. These previous recessions were generally consequent to long periods of expansion and inflation, at times following wars or, unusually, a supply driven production failure, such as the oil induced recession of the 1970s, all these cycles lasting only a few years. Rare exemptions to the recessions caused by reactions to inflationary cycles have been those caused by financial crashes such as the Great Depression, starting in 1929, and the recent Great Recession, starting in 2008, whose effects lasted considerably longer and were much more damaging to the economy.

In contrast the current recession is the result of a policy induced severe curtailment of economic activity. An interesting anomaly of this recession is that, whereas normally the discretionary expenditure in the manufacturing sector is more affected, in this recession the service sector is more affected because person-to-person interaction is so severely limited. Thus, the Covid-19 recession, while much deeper than an inflation or financially induced crisis, when policy is reversed, is expected to last less than two years.

Just as the cause of the Covid recession is singular so will be the recovery. Andy Haldane, the Bank's chief economist, described the UK economy as a "coiled spring" awaiting to jump up when the Covid restrictions are lifted. The energy stored in the "spring" is represented by the increase in the average UK Household Savings, which are usually about 6% of total disposable income, but which increased to 25.5% in Q2 2020 and to 16.5% in Q3. There is a widespread agreement of the reaction to the lifting of restrictions. Pubs, restaurants and services, especially personal services, will boom; increased house moves – mortgage approvals at the end of 2020 were at the highest since 2007 – will increase associated spending, particularly on home improvements; and "difficulties" in holidaying abroad will increase staycations. The surge in spending will be modulated by two important factors. Firstly, several habits will have been altered by recent experience and may not revert to the same pattern of eating out, drinking in pubs and going on leisure shopping trips. However, I suspect such influences will be concentrated on those in the older age brackets where greater Covid "fear" may persist. Secondly, unemployment may rise steeply when the current and recently extended Government support measures expire.

Unemployment averaged 4% in 2019 but rose to 5.1% in 2020 Q1 and to 5.5% in 2021 Q1 and is expected, in the Bank's February forecast, to peak at 7.7% in mid-2021 before falling back to 6.6% in Q4 2021, 5.4% in 2022 and 5.0% in 2023. The OBR, writing after the budget, and the further continuation of the Coronavirus Job Retention Scheme (CJRS), is more optimistic than the Bank's pre-

budget February forecast, expecting unemployment to peak at the much lower figure of 6.5% falling over 2 years to 5.5%. Even at the higher unemployment levels that the Bank expects, it forecasts that GDP, after falling 10% in 2020, will rise 5% in 2021, 7¼% in 2022 and 1¼ % in 2023, when it will be 2¼% larger than before the pandemic. In November they forecast a slightly earlier recovery, but one resulting in an economy in 2023 only 1¼ % higher than the pre-pandemic level.

The Bank's forecast for 2021 takes account of a drop in GDP in Q1 2021 before the subsequent "spring" back, starting in Q2. Thus, if the end Q1 2021 figure is compared with the forecast end Q1 2022 figure, the annual growth is an astonishing 14.2% over that 12 months. Truly, the recovery forecast is exceptional, as indeed was the actual fall in early 2020 at a rate of around 20% per annum. The Bank's central forecast is for GDP to return to the 2019 Q4 level in 2022 Q1 when it estimates that it is 67% likely that GDP will be between 93% and 103% of the 2019 Q4 level.

The OBR forecast is slightly more cautious than the Bank with lower 2021 growth of 4.0%, delaying the recovery to the 2019 level to the end of 2022 when it is expected to be just 0.5% higher than in 2019. HMT, NIESR, IMF, PWC and EY forecasts are also slightly more conservative than the Bank's forecast to differing degrees, although the difference among all these forecasts is most unlikely to be statistically significant. Thus, a quite remarkable "spring back" is generally forecast after which the OBR expects growth to stabilise at 1.7% in the three years to Q4 2025 (The Banks's forecast period does not extend beyond end 2023).

The "spring back" does not recover the "lost growth" of this economic cycle, and with a future forecast growth of 1.7%, below the 1.87% average of the ten years to 2019 before the effects of the pandemic lockdowns, this "lost growth" is not forecast to be recovered in years subsequent to the "spring back". It is, as the cartoon character, Billy Bunter, "The Owl of the Fourth Remove", complained, "a meal lost is lost forever". The lost growth of GDP has been the result of the non-recoverable damage to the economy caused by the huge shrinkage in output, 20% at one time causing permanent economic "scarring". Scarring causes a loss in GDP equivalent to the output forecast in future years before the Covid shock and the output now expected after the Covid shock in these same future years. Thus, unlike most inflation cycles, there is no compensatory post-recession high growth rate that allows a "catch-up".

Scarring is one of three economic factors already adversely affecting the growth of the UK economy, in addition to Brexit and low increases, by historic standards, in productivity. For the Scottish economy there is a further burden, the expectation of Scexit, Scottish Independence, and the accompanying economic cost of such a political choice.

The expected scarring effect is evident by comparing the OBR's estimates of future real GDP for 2025 made in March 2020 and in March 2021 - that estimate is now a little over 3% lower than it was in March 2020. Recently, the UK Government has said that scarring would be less than the 1980s recession where over a long period extensive areas of heavy industry closed, assets scrapped as the economy shifted further towards a service based economy and resultant unemployment was higher. In this recession a quick recovery is expected as jobs have been very extensively protected and financial and monetary support has been unprecedented, the scarring is likely to be less than the 3% of GDP originally feared.

Brexit imposes a second long-term reduction in output whose effect cannot be ascertained by comparison of GDP output expectations used for "scarring" as Brexit's probable outcome has been a conditioning factor in OBR and Bank forecasts for some years. Of the UK / EU agreement the OBR says:

"Overall, the TCA goes beyond a typical FTA with regards to tariffs on goods, by not introducing tariffs on the agriculture sector, but that has a relatively small aggregate economic impact. While some extra commitments have been achieved with respect to non-tariff barriers to goods trade, many of these are similar to other FTAs. The introduction of non-tariff barriers in services, which accounted for 42 per cent of the UK's exports to the EU in 2019, is far more significant. It is this channel that accounts for much of the long-term reduction in [UK] productivity".

The total loss in output from Brexit is estimated by the OBR at 4% of which a 1.6% loss has already occurred and a further 2.4% will be lost, or say 0.24% p.a. for 10 years. The Bank estimates that loss as being 3.25% cumulated over a shorter period.

Unless the UK, leaving the EU, gains extensive Free Trade arrangements elsewhere or uses independence to break the sclerotic effect of many of its monopolies, quasi-monopolies, institutional arrangements and distributional coalitions or unless the EU changes from its current mercantilist political stance and embraces free trade or unless, for some unlikely reason, the EU integrationist project stalls, the UK will continue to pay an economic price for this political choice.

The price the UK incurs by leaving the EU is a small one compared to that which Scotland will pay if it separates from the UK. The percentage of Scottish trade between Scotland and the rest of the UK is very much higher than it was between the UK and the rest of the EU. The LSE consider that “Independence” would reduce Scottish GDP 4.5 – 6.7 percent, even if Scotland stayed in a “common market” with the rest of the UK – and that re-joining the EU would do little to reduce the impact”, or, as it puts it, cost Scotland “three times more than Brexit” will cost the UK. Additionally, Scotland’s 2019 revenue per head is £11,531, £307 lower than the UK, but expenditure per head is £13,854 or £1,661 more, or a net subsidy of £1,968 per head. In 2019 Scotland had a budget deficit of 7.0% of GDP compared with 1.1% for the whole of the UK. The income figures quoted included Scotland’s share of North Sea revenues (i.e. the overwhelming majority of them) but the current policy is to phase out North Sea oil and gas in favour of “Greener Policies”, so further decreasing Scotland’s revenues. Unfortunately, it is inconceivable that an independent Scotland could finance the borrowing required by its budget deficit on the very fine terms enjoyed by the UK, appreciably raising the costs of independence. Scexit will be a political decision taken at a very great cost.

For Scexit that cost, fortunately, would be primarily economic. There are distinct appalling parallels with other heroic failures, particularly with the second uprising of 1745, the struggle in the UK for a Catholic Stuart claimant, supported mainly by Highland and Western Scots, against the mainly Protestant Scottish and English Hanoverian supporters, which was suppressed at Culloden, a boggy moor near Inverness. The Highlanders attempted a daring night attack on the enemy rear, but, having failed to reach the target timeously, returned to camp for a meal of “ain single biskit a man” before unexpectedly battle was joined at 1pm. Out at night and unfed, many were tired and the boggy moor was unsuitable for the Highlanders’ normal tactics – discharge and then discard muskets before charging, wielding hand weapons. The boggy ground slowed their assault while grapeshot racked them before confronting musketeers armed with the then newly improved “brown bess” bayonet, a hand weapon out-reaching other hand weapons. Even their great valiance could not then secure victory. Independence implies an avoidable economic sacrifice, a heroic failure worthy of a Greek Tragedy: “Econo-loden”.

Economic prospects depend on their base from which they are viewed. In the UK, compared to March 2020, they are disappointing, but compared to the prospects as they have unfolded, given the extent of the plague and its potential for catastrophe, the prospects are excellent: some output has been lost, but strong recovery is almost certain. Unlike other extensive plagues, courtesy of great scientific advances in many disciplines, its control and the subsequent economic recovery are within our grasp.

Property Prospects

I reviewed property prospects comprehensively in December 2020 when the incidence of Covid-19, as gauged by infections and hospital admissions, was falling and the lockdown of economic activity was being eased: there was a bright light at the end of the tunnel. But property surveys reported in 2021 have been taken during a return to severe lockdown restrictions, when the outlook had become less favourable. The only major sector previously forecast to have a positive return, industrials, now has a better forecast return, whereas those sectors previously forecast to have poor or negative returns have got worse forecasts: the trends are accentuated.

Industrials, reflecting the extensive growth of online shopping and associated delivery services, have improved forecasts with rents expected to increase further and investment yields to fall, giving an expected investment return increased to 8.7%³⁰¹ from 5.8%. The office sector forecast is only slightly less favourable than previously with a February forecast of a total return of 1.1%, subsequent to a further fall in capital values and the positive total return resulting from rental income.

Forecast retail sector returns have declined even further than previously forecast. Retail warehouses had the smallest downgrade with the total forecast return falling from 0.5% to -0.7% for 2021. For standard retail shops the forecast return fell to -6.6% from -3.8% as rental value growth fell to -8.3% from -6.8% and capital value growth fell from -8.5% to -10.9%. Shopping centres had the largest forecast fall as total return fell from -4.2% to -7.0% as capital value growth fell from -10.5% to -13.1% and rental value dropped from -8.4% to -10.5%. Forecasts for 2022 show all retail sectors continuing to fall in capital value and in rental value. In contrast, returns for all other sectors are positive in 2022 and by 2023 returns have “normalised” but with industrials continuing to give the highest total return.

It is quite extraordinary how quickly the retail sector, so long the “darling” of the property sector, has fallen from grace. Equally extraordinary is how the industrial sector, so long the ugly duckling, has fledged into a beautiful swan. These abrupt, particular, changes highlight a general rule. Trends continue over a long period, but when they change, the change is rarely identified before it engulfs the market. Like the explanation given in Hemingway’s *The Sun Also Rises* to “How did you become bankrupt?”. Two ways, “Gradually, then suddenly”.

The figures and forecasts quoted above all refer to “prime”, large investments, but analyses of smaller property investments might reveal a much more varied and less extreme situation.

Following the “lockdown in March 2020”, high street footfall fell by a minimum 80% in all but small cities. However, by August, while it had fallen 70% in London and was 45% lower in large and medium cities, footfall was only 20% lower in medium and small cities and is likely that in even smaller settlements the drop in footfall might even be less. Additionally, it seems likely that small shops, single traders and speciality shops may be less affected by any change in the retail pattern and may even gain from the distress of retail parks and shopping centres. Anecdotal evidence of footfall in suburbs around Edinburgh certainly supports such a hypothesis.

The anomalous rise in house prices up to October 2020 that I noted in my December report has continued with prices in England and Wales rising by 8.7% to January 2021 (10.7% excluding London and the S.E.) and by 9.0% in Scotland, the highest rise since October 2014. Prices reported for Edinburgh, Lothian, Fife and Borders mirror these national changes with a price rise of 7.4% to end January 2021, although the City centre flatted areas had only moderate rises. Notable increases were East Fife 26.6%; Portobello 21.7%; Borders 15.6% and Dunfermline 14.5%, all such changes probably being influenced by being “out of town” while the City centre suffered from being “in town”!

The OBR ascribes the rapid general rise in prices on the lesser impact on incomes of higher earners, who account for a disproportionate share of house purchases, the build-up of forced savings in the pandemic and, particularly in England, the current short-term tax concessions, especially valuable to higher priced purchasers. Other commentators ascribe the rapid rise to delays due to Brexit uncertainty; low interest rates; and increased demand for space, home working and gardens. The OBR expects the momentum to be exhausted and for prices to fall on a quarter-by-quarter basis over the second half of 2021 and in 2022, but to resume their historically more typical rate of rise of 3.0%, just above earnings growth, from 2023 onwards.

Savills have a quite different opinion to the OBR. While they expect UK price rises in 2021 to fall from the current high level of a 7.3% rise, the fall will be limited to 4.0%, and will average over 4.0% for the next four years, or 21.1% for five years. Northerly areas are forecast to have a higher five-year increase – 28.8% in the N.W.; Scotland 22.8%; and Southerly areas of England less than 20%, but London rising only 12.6%, the lowest rise in G.B.

Savills’ forecasts for prime house values are similar to their mainstream forecast with all prime regional prices rising 20.5% over four years and with “outlying” areas showing higher price growth with Scotland, the highest of all, at 22.8% closely followed by Prime Central London’s 21.6% and the suburbs and commuting areas of London around 19.0%. In essence, there is no appreciable difference among the prime areas and little only between mainstream and prime price rises.

House prices command considerable academic attention and are of great political significance because of their social and economic implications. Many studies of house prices have concluded that there is a

“problem” – high house prices. Martin Wolf, writing in the FT, quotes the ratio of average house prices to earnings as currently 8.4, the same as just before the 2008 financial crisis and higher than any other year since the 1880s. For fifty years until 2000 it averaged 4.8. However, the average figures disguise a huge variation – in many rural areas and some cities – the ratio is below 5.0. In some areas of Scotland, the average house price is under £150,000. If there is a housing “problem” it is not a universal problem but a localised one. The perceived localised problem arises because only at that “problem” price can demand be satisfied and self-evidently, as the market clears at that price, there is no shortage of houses at that price.

The manufacturer of houses, the builders, are dependent on the supply of their raw material just as oil refiners producing petrol are dependent on the supply of crude oil. In oil the supply is dependent on the cartel OPEC+ and, similarly, the builders are dependent on the supply of land.

The land supply is determined by centrally set rules and regulations based on social and political objectives, interpreted locally, which invariably restricts the supply of land, raising its price. These supply restrictions are deeply entrenched and closely guarded with considerable political influence and thus, without equivocation, I repeat my forecast: “the key determinant of the long-term housing market will be a shortage of supply, resulting in higher prices”. I consider this unlikely to change in the near future.

Conclusion

Last year I concluded:

“I believe that the measures to reduce the spread of Covid-19 will inflict an unprecedented shock to the economy, possibly resulting in an unprecedented 20% short term economic contraction.

Evidence from countries subject to similar measures shows that the measures now being adopted, primarily “lock down” (as in medieval Italy) bring a rapid stabilisation in the numbers of new infections within 4 – 6 weeks. Thereafter stricter quarantine measures, extensive testing – equipment will become available for this – higher NHS capacity, potentially the effect of higher daytime temperatures and UV levels, better personal hygiene and the use of existing or the discovery of new drugs and vaccines should allow the rates of infection and mortality rate to fall. All the time the proportion of the population immune to the disease will rise, reducing the propagation rate of the disease for any given circumstances. Like “true” influenza, it will become a continuing endemic disease but one no longer influencing the economy.

The release of or a qualified use of “lockdown” will provide an immediate upsurge in the UK economy, but it is unlikely to recover immediately more than 80% of the “lost” ground. It is the estimate of rate of recovery of the balance of GDP that is subject to a very wide margin of error. The delay to the return to the present level of GDP will be determined by the damage to the supply side of the economy by the current pre-emptive slow down: it is as if a fast-revving, highly tuned machine had been abruptly cut off rather than progressively slowed down.

Other recessions normally impair the demand side of the economy – squeezing inflation, making credit expensive and sometimes unobtainable even for the creditworthy. The current and proposed government measures seem likely to support demand. In the current economic situation Brexit and the Oil price are “bit” players, Brexit exerting a downward influence and lower oil prices an upward influence except in oil producing areas.

My current forecast for a full recovery in GDP is within two years”.

I now forecast a full recovery of GDP in Q3 2022, six months later than last year’s forecast, due primarily to the extent of the post-Christmas lockdown and a few weeks delay in the expected vaccination programme.

The long-term cost to the economy is equivalent to about two years of normal 1.5% growth, say 3%, and current forecasts are that this gap will not be made-up or closed by increased output above the normal 1.5% p.a. It will be a permanent “scar” due to damage to the supply side of the economy, in contrast to “normal” recessions induced by measures that bear primarily on the demand side of the economy.

Covid-19 and the lockdown measures have adversely affected the Group, directly and indirectly. Our property investment business has only suffered mildly as the smaller businesses tenanted our properties have proved resilient and have not been so affected by the inroads made by online ordering. Nevertheless, the reduced staffing levels of the Registers at Meadowbank in Edinburgh has resulted in the Registers not continuing the car parking lease, which has been re-let to Edinburgh Palette at a nominal sum. The principal adverse effect on the Group has been the grave uncertainty that teaching and travel has had on the University entrance rolls and their rental collection from student accommodation. Such uncertainty has caused the widespread postponement of securing further student accommodation which contributed to delays to the sale of St. Margaret's. However, recent market information is that university UCAS clearing applications are at record numbers and that purpose-built accommodation for students will continue to increase. Such specialist student accommodation is becoming more attractive compared to "flats" as the cost margin continues to reduce, multiple occupation of flats is becoming increasingly complex for private landlords and legislation and tax changes increasingly disadvantage landlords, while the value to the students and to their parents of the safer inclusive nature of specialist accommodation is increasingly appreciated as being well worth any marginal cost. Traditionally, universities, especially the old established collegiate ones, did "provide" a more encompassing, catered for and cared for environment and these qualities may be increasingly valued in today's "safer" society. Notwithstanding an expected increase in market activity, we believe that the current uncertainty will likely occasion a further delay in the sale of St. Margaret's.

The successful sale prices achieved at Brunstane and the strength of the housing market, especially for large family homes, has, as a result of this pandemic, spread to wider commuting areas and will enable us to extend our development programme, concentrating on specialist sites in which the disadvantage of our small scale are not applicable. The constraints to the development programme are the current low availability of finance and its cost. Most of the sites were bought without planning consent and at low cost. Unfortunately, for loan purposes only the cost is allowable in calculating the Loan to Cost for loan purposes and this is most restrictive for our house sites, some of which have a "cost" of only £10,000 - £20,000 a plot. The real cost of finance is now exorbitant compared to all previous experience, as, for instance, the Brunstane development finance cost overall more than 10% on a site secured at less than 50% Loan to Value. The sale of Ardpatrik to a purchaser, who will be resident, into an improved rural market will release funds which can generate 10% at the margin and increase at an accelerating rate the scale of the projects that can be developed.

I am confident that, apart from the short continuing delay caused by the current epidemic, the future prospects of the Group are fundamentally unchanged, only their realisation has been delayed. Hence, I conclude, as previously: -

"In our existing portfolio, most development properties are valued at cost, usually based on existing use, and when these sites are developed or sold, I expect their considerable upside will be realised. Some investment properties also have considerable development value, as we expect to realise at St Margaret's."

I D LOWE
Chairman
31 March 2021

Consolidated income statement for the six months ended 31 December 2020

	Note	6 months ended 31 Dec 2020 £000	6 months ended 31 Dec 2019 £000	Year ended 30 Jun 2020 £000
Revenue				
Revenue from development property sales		947	90	90
Gross rental income from investment properties		193	219	446
Total Revenue		1,140	309	536
Cost of development property sales		(787)	(82)	(82)
Impairment adjustment on development property	13	(165)	-	-
Property charges		(56)	(86)	(172)
Cost of Sales		(1,008)	(168)	(254)
Gross Profit		132	141	282
Administrative expenses		(233)	(324)	(428)
Other income		6	6	20
Net operating loss before investment property disposals and valuation movements		(95)	(177)	(126)
Valuation gains on investment properties	5	-	-	250
Valuation losses on investment properties	5	(165)	-	-
Net (losses)/gains on investment properties		(165)	-	250
Operating (loss)/profit		(260)	(177)	124
Financial expenses		(67)	(19)	(29)
Net financing costs		(67)	(19)	(29)
(Loss)/profit before taxation		(327)	(196)	95
Income tax	6	-	-	-
(Loss)/profit and total comprehensive income for the financial period attributable to equity holders of the parent Company		(327)	(196)	95
(Loss)/profit per share				
Basic and diluted (loss)/profit per share (pence)	7	(2.77p)	(1.66p)	0.81p

Consolidated statement of changes in equity as at 31 December 2020

	Share Capital	Capital redemption reserve	Share premium account	Retained earnings	Total
	£000	£000	£000	£000	£000
At 1 July 2020	2,357	175	2,745	18,818	24,095
Loss and total comprehensive income for the period	-	-	-	(327)	(327)
At 31 December 2020	2,357	175	2,745	18,491	23,768
At 1 July 2019	2,357	175	2,745	18,723	24,000
Loss and total comprehensive income for the period	-	-	-	(196)	(196)
At 31 December 2018	2,357	175	2,745	18,527	23,804
At 1 July 2019	2,357	175	2,745	18,723	24,000
Profit and total comprehensive income for the period	-	-	-	95	95
At 30 June 2020	2,357	175	2,745	18,818	24,095

Consolidated balance sheet as at 31 December 2020

	Note	31 Dec 2020 £000	31 Dec 2019 £000	30 Jun 2020 £000
Non-current assets				
Investment property	8	17,555	17,470	17,720
Plant and equipment		10	15	10
Investments		1	1	1
Total non-current assets		17,566	17,486	17,731
Current assets				
Trading properties		12,146	12,861	13,006
Trade and other receivables		150	160	122
Cash and cash equivalents		62	38	72
Total current assets		12,358	13,059	13,200
Total assets		29,924	30,545	30,931
Current liabilities				
Trade and other payables		(1,206)	(1,281)	(1,213)
Interest bearing loans and borrowings	12	(830)	(1,390)	(1,503)
Total current liabilities		(2,036)	(2,671)	(2,716)
Non-current liabilities				
Interest bearing loans and borrowing		(4,120)	(4,070)	(4,120)
Total liabilities		(6,156)	(6,741)	(6,836)
Net assets		23,768	23,804	24,095
Equity				
Issued share capital	10	2,357	2,357	2,357
Capital redemption reserve		175	175	175
Share premium account		2,745	2,745	2,745
Retained earnings		18,491	18,527	18,818
Total equity attributable to equity holders of the parent Company		23,768	23,804	24,095
NET ASSET VALUE PER SHARE		201.7p	202.01p	204.5p

Consolidated cash flow statement for the six months ended 31 December 2020

	6 months ended 31 Dec 2020 £000	6 months ended 31 Dec 2019 £000	Year ended 30 Jun 2020 £000
Cash flows from operating activities			
(Loss)/profit for the period	(327)	(196)	95
Adjustments for:			
Net loss/(gain) on revaluation of investment properties	165	-	(250)
Impairment adjustment on development property	165	-	-
Depreciation	-	-	5
Net finance expense	67	19	29
Operating cash flows before movements in working capital	70	(177)	(121)
Decrease/(increase) in trading properties	695	(463)	(608)
(Increase)/decrease in trade and other receivables	(28)	(9)	29
(Decrease)/increase in trade and other payables	(74)	55	(22)
Cash generated from/(absorbed by) operations	663	(594)	(722)
Interest received	-	-	-
Net cash inflow/(outflow) from operating activities	663	(594)	(722)
Investment activities			
Proceeds from sale of plant and equipment	-	1	-
Acquisition of plant and equipment	-	(9)	(9)
Cash flows (absorbed by) investing activities	-	(8)	(9)
(Decrease)/increase in borrowings	(673)	509	672
Cash flows (absorbed by)/generated from financing activities	(673)	509	672
Net (decrease) in cash and cash equivalents	(10)	(93)	(59)
Cash and cash equivalents at beginning of period	72	131	131
Cash and cash equivalents at end of period	62	38	72

1 This interim statement for the six-month period to 31 December 2020 is unaudited and was approved by the directors on 31 March 2020. Caledonian Trust PLC (the “Company”) is a company incorporated in England and domiciled in the United Kingdom. The information set out does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2 Going concern basis

The Group and parent Company finance their day to day working capital requirements through related party loans and bank and other funding for specific development projects. The directors have assessed the impact of the Covid-19 pandemic on its cash flow forecasts and expect that current rental streams and property sales in the normal course of business will provide sufficient cash inflows to allow the Group to continue to trade.

The related party lender has indicated its willingness to continue to provide financial support and not to demand repayment of its principal loan during 2021. Accordingly, the directors continue to adopt the going concern basis in preparing this interim statement.

3 Basis of preparation

The consolidated interim financial statements of the Company for the six months ended 31 December 2020 comprise the Company and its subsidiaries, together referred to as the “Group”. The financial information set out in this announcement for the year ended 30 June 2020 does not constitute the Group’s statutory accounts for that period within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 June 2020 are available on the Company’s website at www.caledoniantrust.com and have been delivered to the Registrar of Companies. The accounts for the year ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. The auditors have reported on those financial statements; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The financial information set out in this announcement has been prepared in accordance with International Accounting Standard IAS34 “Interim Financial Reporting”. The financial information is presented in sterling and rounded to the nearest thousand.

The interim financial statements have been prepared based on IFRS that are expected to exist at the date on which the Group prepares its financial statements for the year ending 30 June 2021. To the extent that IFRS at 30 June 2021 do not reflect the assumptions made in preparing the interim statements, those financial statements may be subject to change.

In the process of applying the Group’s accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the interim statement. Changes in the assumptions underlying the estimates could result in a significant impact to the financial information. The most critical of these accounting judgement and estimation areas are included in the Group’s 2020 consolidated financial statements and the main areas of judgement and estimation are similar to those disclosed in the financial statements for the year ended 30 June 2020.

Caledonian Trust PLC
Registered Number 01040126

4 Accounting policies

The accounting policies used in preparing these financial statements are the same as those set out and used in preparing the Group's audited financial statements for the year ended 30 June 2020.

5 Valuation (losses)/gains on investment properties

	31 Dec 2020 £000	31 Dec 2019 £000	30 Jun 2020 £000
Valuation gains in investment properties	-	-	250
Valuation losses on investment properties after transaction costs	(165)	-	-
Net valuation (losses)/gains on investment properties	(165)	-	250

As set out in note 13, the valuation loss in the period to 31 December 2020 reflects the estimated effect of the agreement to sell the Ardpatrik Estate which, as announced by the Company on 25 March 2021, is expected to complete in late April 2021. The valuation gain in the period ended 30 June 2020 relates to progress on the site at Belford Road, Edinburgh.

6 Income tax

Taxation for the six months ended 31 December 2020 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2021. Due to the tax losses incurred there is no tax charge for the period.

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. At 31 December 2020 there is a deferred tax asset which is not recognised in these accounts.

Notes to the interim statement (continued)

7 Profit or loss per share

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

	6 months ended 31 Dec 2020 £000	6 months ended 31 Dec 2019 £000	Year ended 30 Jun 2020 £000
(Loss)/profit for financial period	(327)	(196)	95
	No.	No.	No.
Weighted average no. of shares: For basic and diluted profit or loss per share	11,783,577	11,783,577	11,783,577
Basic (loss)/profit per share	(2.77p)	(1.66p)	0.81p
Diluted (loss)/profit per share	(2.77p)	(1.66p)	0.81p

8 Investment Properties

	31 Dec 2020 £000	31 Dec 2019 £000	30 Jun 2020 £000
Valuation			
Opening valuation	17,720	17,470	17,470
Revaluation in period	(165)	-	250
Closing valuation	17,555	17,470	17,720

The carrying value of investment property is the fair value at the balance sheet date at directors' valuation and based on valuations as at 30 June 2019 by Montagu Evans, Chartered Surveyors, and for one property, by Rettie & Co. Neither external valuer is connected with the Company. As disclosed in note 13 an agreement for sale of Ardpatrik Estate was entered into on 15 December 2020 and as disclosed previously, a conditional agreement for sale of St Margaret's House, Edinburgh was entered into on 2 February 2018.

Notes to the interim statement (continued)

9 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:

	31 Dec 2020		31 Dec 2019		30 Jun 2020	
	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000
Trade and other receivables	81	81	119	119	89	89
Cash and cash equivalents	62	62	38	38	72	72
	<u>143</u>	<u>143</u>	<u>157</u>	<u>157</u>	<u>161</u>	<u>161</u>
Loans from related parties	4,595	4,595	4,430	4,430	4,480	4,480
Bank loan	355	355	1,030	1,030	1,143	1,143
Trade and other payables	1,201	1,201	1,273	1,273	1,196	1,196
	<u>6,151</u>	<u>6,151</u>	<u>6,733</u>	<u>6,733</u>	<u>6,819</u>	<u>6,819</u>

Estimation of fair values

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

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.

Notes to the interim statement (continued)

10 Issued share capital

	31 Dec 2020		31 Dec 2018		30 Jun 2020	
	No.	£000	No.	£000	No.	£000
	000		000		000	
Issued and Fully paid						
Ordinary shares of 20p each	11,784	2,357	11,784	2,357	11,784	2,357

11 Seasonality

Property sales in the Group are largely unaffected by seasonal variations and tend to be driven more by opportunity on investment and by progress on development sites.

12 Bank loan

At 31 December 2020, the Group had a loan facility from Bank of Scotland to finance the next stage of its Brunstane Development. The amount of the loan drawn down and not repaid at 31 December 2020 was £355,000 and interest was payable at a margin of 5.1% over Bank of Scotland base rate. The loan was repaid in full on 1 March 2021.

13 Post balance sheet events

On 15 December 2020, the Company entered into an agreement to sell all of its remaining interest in the Ardpark Estate for cash consideration of £2.70 million. The carrying value of the property at 30 June 2020 was £2.99 million attributable partly to investment property and partly to trading properties. The sale price reflects the decision to sell the properties comprising the Estate as a single asset. The transaction is expected to complete in late April 2021. Pending agreement of the allocation of the sale consideration between stock and investment property, impairment adjustments, including estimated transaction costs, have been made on an estimated basis as follows:

	31 Dec 2020 £000	31 Dec 2019 £000	30 Jun 2020 £000
Valuation of investment property	(165)	-	-
Write down of stock to net realisable value	(165)	-	-
Total estimated adjustment at 31 December 2020	(330)	-	-

Since 31 December 2020, sales of the remaining three properties at Phase 2 of the Brunstane development have completed. The aggregate profit on Phase 2 of the Brunstane development, after finance costs, will exceed £450,000.