Knight Frank

THE RURAL REPORT

A unique guide to the issues that matter to landowners

10TH EDITION AUTUMN 2015

Issues and insights
Threats and opportunities for landowners

Rural property markets
Our latest research and analysis

Working for you
Adding value for our clients

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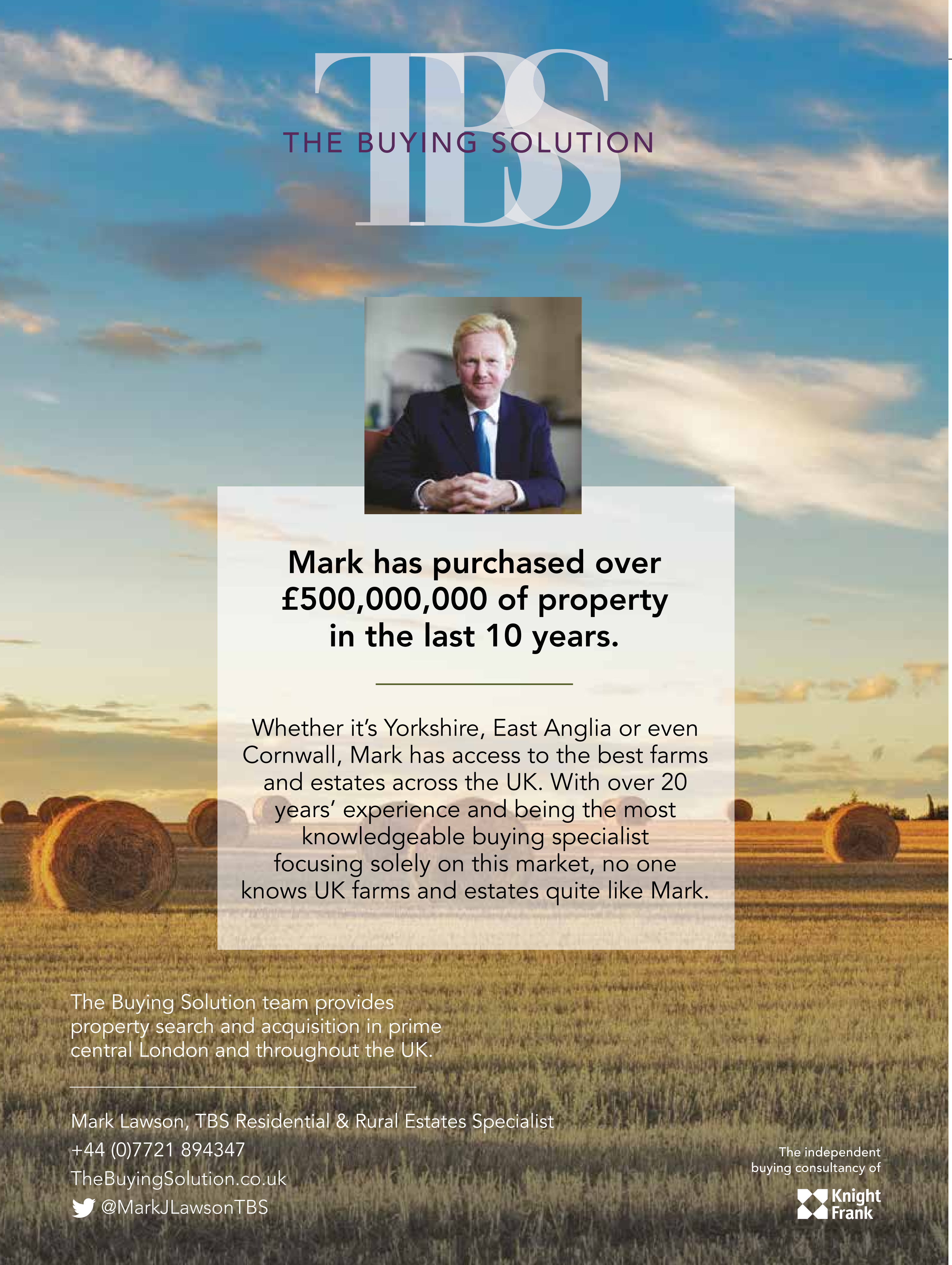

Welcome to the special 10th edition of *The Rural Report*, our biannual magazine for rural property owners

Much has changed over the five years since we first published the report.

Back then a Tory/Lib-Dem coalition government had just been formed, now we have a majority Conservative government. Commodity prices have been on a rollercoaster ride and a new Common Agricultural Policy (CAP) has just been introduced. Average farmland values have risen by around 43%.

Over the following pages *The Rural Report* examines these and other changes affecting rural property owners in more detail, and looks forward to see what the next five years may hold.

Things have also been changing at Knight Frank; we have grown our rural business significantly and opened a number of new offices around the UK. Please see page 24 for more details.

However, some things remain constant. Whether you need help managing your rural property, require a property valuation or would like to sell your estate, farm or country house, our commitment to providing the best advice and highest levels of service has stayed the same. You can see some examples of this on pages 26 to 30.

The Rural Report is just one example of how we aim to help our clients to make the most of their rural properties, whatever their aspirations. I hope you find the content interesting and useful.

Please do get in touch if we can help.

JAMES DEL MAR
Head of Rural Consultancy

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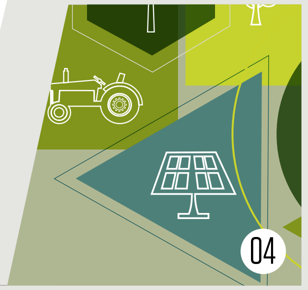

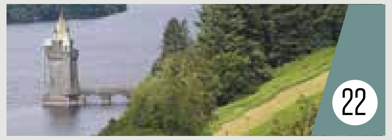

THE RURAL REPORT

Written and edited by
Andrew Shirley
andrew.shirley@knightfrank.com

Marketing Jenny Stokes
jenny.stokes@knightfrank.com

Design & Art Direction
Quiddity Media Limited
quidditymedia.co.uk

Printing Pureprint
pureprint.com

Photography
Hugh Nutt
Richard Stanton

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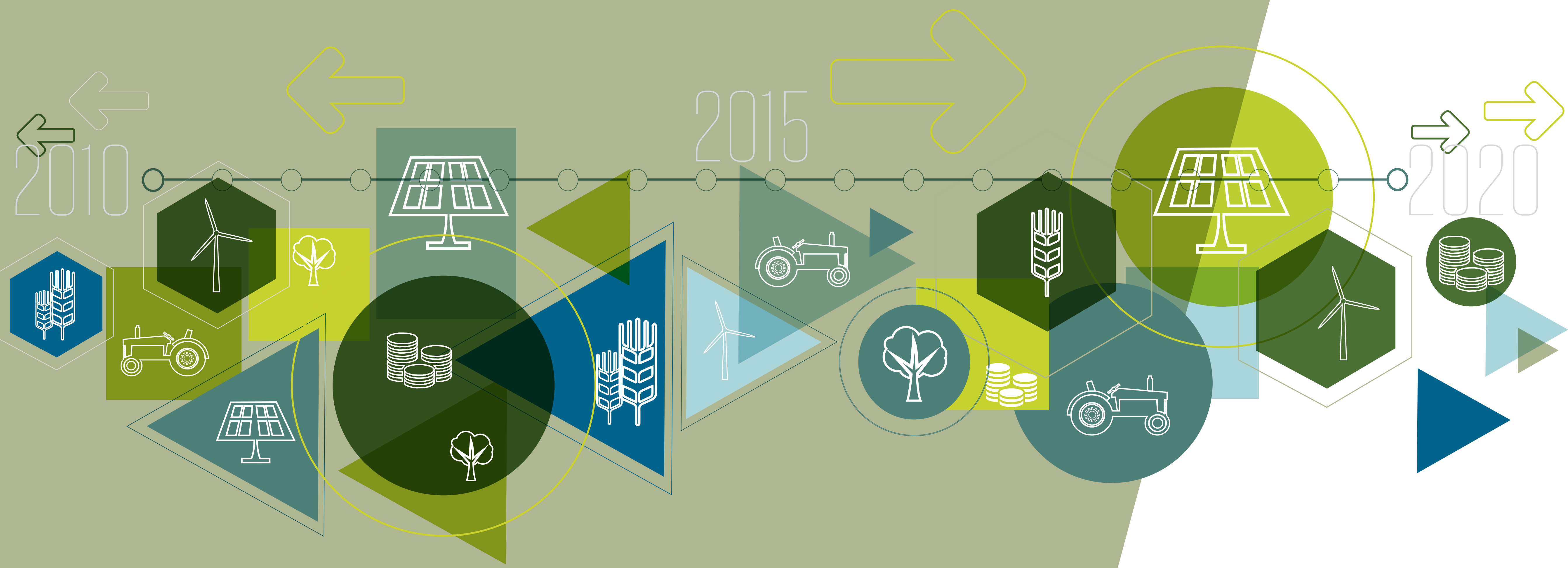


RURAL ISSUES & INSIGHTS

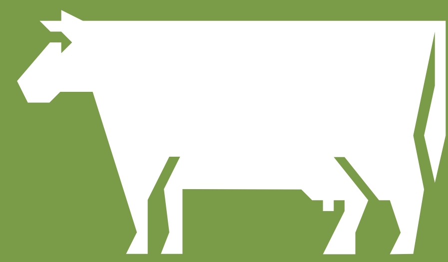
THE PAST, THE PRESENT, THE FUTURE

A special feature, with insight from Knight Frank's experts and leading third-party contributors, analysing the challenges and opportunities facing rural landowners across different sectors

In this section

Issues and insights

-32% Fall in average farm-gate milk prices since November 2013



-1,562 Fall in number of dairy holdings in England and Wales since June 2010

-£113/t Drop in feed wheat values since December 2012

-63% Fall in oil prices since March 2012

The past, the present, the future

Andrew Shirley, Knight Frank's Head of Rural Research, looks at how some of the key factors affecting rural property ownership have changed over the past five years and examines the future outlook

Agriculture

Comparing agricultural commodity prices now with when we first published *The Rural Report* it seems as if little has changed.

The price of feed wheat at the beginning of June 2010 was £101/t, at the start of September 2015 it was virtually the same. Dairy farmers were paid 23.86p/litre on average for their milk, now they get 23.25p.

However, that would be like saying not much happens on a rollercoaster because you start and end at the bottom.

Agricultural commodities have been on an incredibly volatile journey over the past five years.

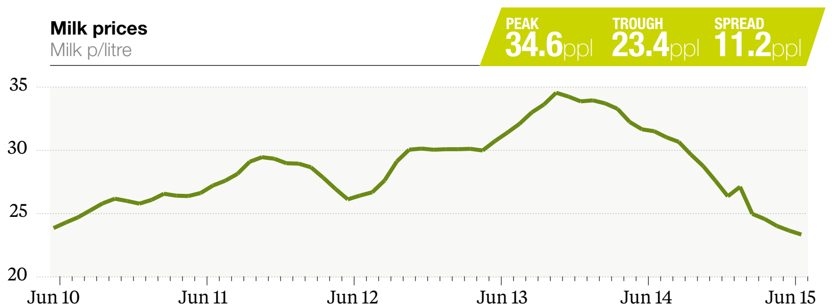
After peaking at around £214/t in December 2012, feed wheat values have crashed by over 50%. Milk prices hit a high of over 34.5p/litre at the end of 2013 before slumping by more than 11p/litre. Thankfully, input prices, such as fuel, have also fallen.

Increasing globalisation of trade is the culprit – what happens in terms of both supply and demand around the world – whether it's an economic slowdown in China or a bumper harvest in Australia – will have a direct impact on the prices paid to the UK's farmers, especially when they produce a surplus over domestic consumption levels.

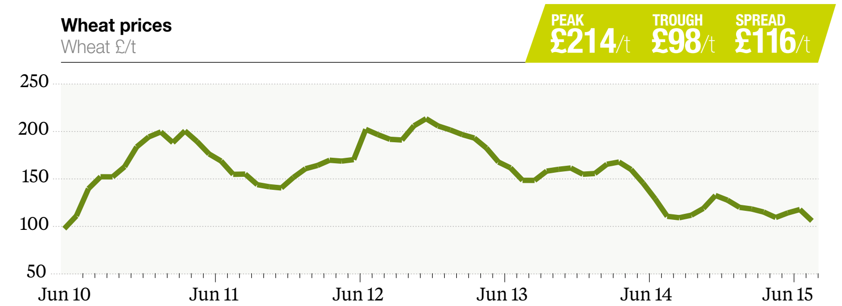
During the 2012/2013 harvest year, global wheat demand was 679 million tonnes compared with production of 657 million tonnes. For the current year the situation has been reversed – production is forecast to hit 725 to 730 million tonnes against consumption levels of 715 to 720 million tonnes.

According to grain traders, cereal prices should increase next year, but even then the futures market is currently offering only £120/t for November 2016 feed wheat. However, one trader told me that there is every chance that over the next five years prices will hit £200/t again – "we just don't know when or why it will happen, and for how long".

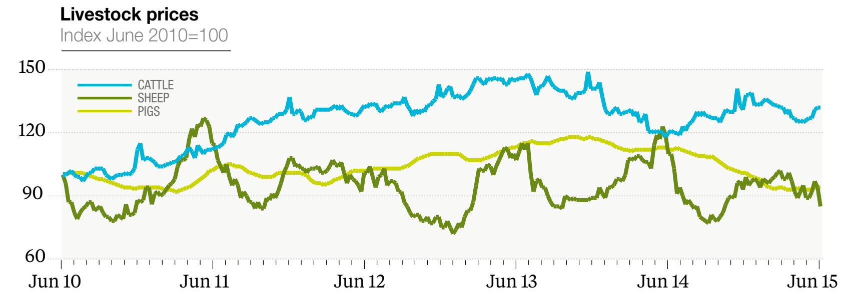
The crash in milk prices has prompted a furious response, largely aimed at supermarkets, from dairy farmers – cows have even been paraded through store aisles.



Source: AHDB



Source: HGCA



Source: AHDB

However, the price falls reflect a global imbalance between supply and demand. Butter and skimmed milk powder prices have slumped by as much as 40% since the end of 2013, but production is still rising. Producers in parts of Europe, for example, invested heavily in anticipation of the scrapping of milk quotas in April 2015.

Some kind of recovery is predicted next year as Chinese and Indian buyers return to the commodities market. The dairy sector's overall future does look positive as developing markets like Africa increase consumption, but inevitably it will be the primary producer who bears the brunt of short-term volatility.

Exchange rate volatility also creates problems, especially for export-driven markets such as lamb. The euro/sterling rate also has a direct effect on all farming businesses because subsidy payments are set in euros. In 2010 a farmer with a €100,000 payment would have received £88,000, at the current rate their 2015 payment will be £72,500.

Analysts say that not only is volatility here to stay, but that the cycle between peaks and troughs will get shorter.

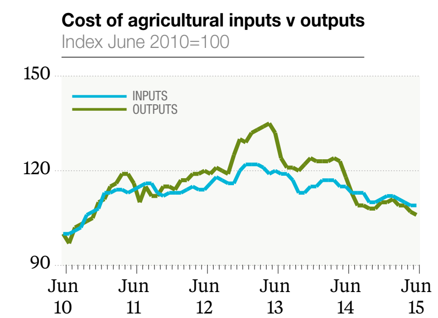
As some of our contributors on pages 12 and 13 point out, farming businesses will have to ride out these peaks and troughs by producing more from less. Science and technology – where acceptable to the public – will play a role, but this will involve significant investment leading, inevitably, to further rationalisation across the industry.

One economic factor that has been remarkably stable over the past five years has been the Bank of England base rate, which has remained at a record low of 0.5% over the entire period.

This has protected businesses from some of the downturn in commodity prices, but as James Del Mar, Knight Frank's Head of Rural Consultancy, warns on page 13 planning for the inevitable rise, which may happen next year, is vital.

Other issues to watch include the impacts of CAP reform, perhaps not so much the latest round, which despite introducing new greening requirements, broadly maintained the status quo, but what happens from 2020.

Conservation groups want far more emphasis on the delivery of environmental benefits, while budgetary pressures may force a radical rethink on the level of direct payments.



Source: DEFRA

Issues and insights

The past, the present, the future >

Renewable Energy

Five years is a long time in the world of renewables.

In the first and subsequent editions of *The Rural Report*, numerous pages were devoted to explaining how landowners could benefit from renewable energy in the form of the feed-in tariff (FiT) scheme, which had just been introduced.

FiTs offered up to 25 years' worth of index-linked payments for schemes below 5MW producing electricity from wind, the sun, water and anaerobic digestion, even if you used the power produced yourself.

The uptake was huge. In April 2010 there were 412 schemes with a combined capacity of just over 1,000kW installed. By April 2012 that had risen to 262,434 with a capacity of almost 1.1m kW.

It is perhaps not surprising that 54% of the respondents who took part in the Knight Frank Rural Business Sentiment Survey 2015 (page 11) said renewables had helped to boost the profitability of their businesses over the past five years.

However, the scheme became a victim of its own success and the government decided that the FiT rates on offer were too generous (see table below), especially as the cost of installing renewable schemes had dropped sharply. Plus-5MW support schemes have also suffered a similar fate.

> Advances in battery technology are going to take the possibilities from micro generation to a whole new level
>
> Christopher Smith

Under the government's latest proposals FIT rates will be cut even harder in 2016, disappearing altogether by 2019 for some wind and solar PV installations.

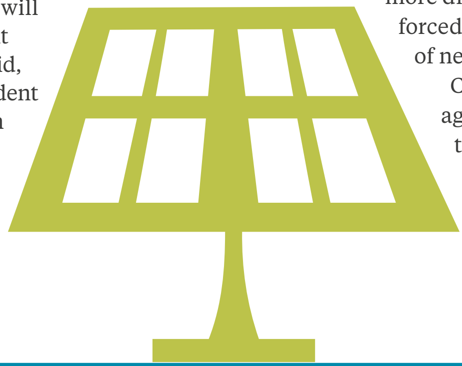
Rising public opposition to the proliferation of wind and solar PV farms across the countryside also unsettled vote-conscious politicians, and gaining planning permission for a scheme of any significance is now far more difficult than it once was.

Anaerobic and hydro schemes, which have enjoyed lower levels of take up and excite less controversy, remain relatively well financially supported, but it is becoming harder to make the numbers stack up for larger onshore wind and ground-mounted solar schemes.

The government's emphasis is now much more focussed on offshore wind and solar PV schemes on the roofs of warehouses and other large commercial buildings.

So, five years on, have renewables gone from zero to hero and back to zero again? Emphatically not, says Christopher Smith, Knight Frank's rural renewables expert.

"It is still a very exciting time for rural property owners, but it's not receiving a subsidy to generate electricity that will be the big attraction in the future, it will be the opportunity to go off-grid, to create your own totally independent energy supply and not be reliant on centralised production. Advances in battery technology are going to take the possibilities from micro generation to a whole new level."



Planning Policy

In 2012 thousands of pages of planning policy guidance were swept away and replaced with the National Planning Policy Framework (NPPF).

The NPPF was a "game changer" for many rural property owners, according to Andy McMullan of Knight Frank's planning department.

Not only did it include a presumption in favour of sustainable development, but it also introduced far more stringent consequences for local authorities that did not have a realistic five-year housing supply in place. Without this, turning down developments became significantly more difficult and authorities were forced to progress with the adoption of new local plans.

Critics of the NPPF were aghast and predicted that the countryside would be buried under concrete. That hasn't happened. National designations such as SSSIs and AONBs will often trump a lack of a five-year supply and developments must still be considered "sustainable".

A lack of clarity is the biggest problem with the NPPF, says Andy. "Different authorities interpret it in different ways and there is no real consistency across the country, therefore an understanding of each council's approach is vital."

Inconsistency also affects another of the big planning developments of the past five years.

In 2014 the government introduced new permitted development (PD) rights that theoretically, subject to satisfying certain conditions, meant full planning consent was no longer required to convert an agricultural building into up to three residential dwellings with a cumulative area of no more than 450 sq metres.

However, despite a further government note clarifying its intention to enable development, many local authorities are still routinely blocking projects looking to take advantage of the new PD rights.

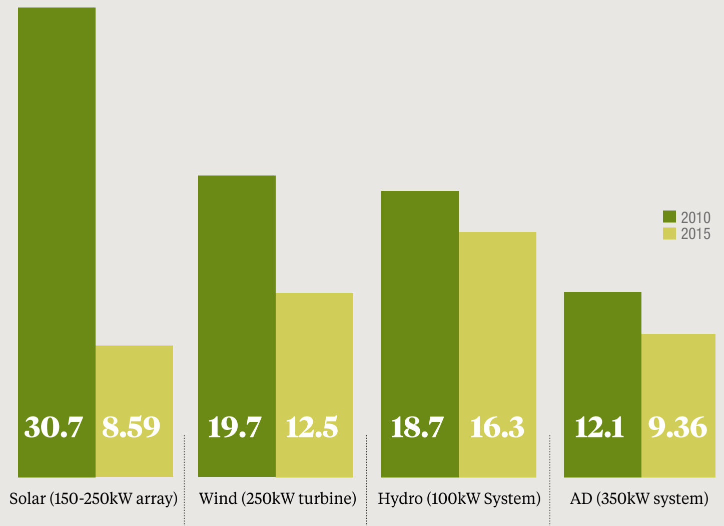
But other new opportunities exist, says Andy. "The growing uptake of neighbourhood plans gives local communities greater control of development and landowners who engage with the process could benefit."

But the fact that the Conservatives haven't unveiled any significant new planning measures since the General Election suggests they probably led most of the measures, like the NPPF, introduced by the previous coalition and further large-scale change is unlikely over the next few years.

However, increasing the availability of housing in rural areas was part of Chancellor George Osborne's recently unveiled 10-point Rural Productivity Plan, although no substantive details have been released.

GET IN TOUCH
If you would like to discuss how any of the issues discussed over the previous pages might effect your estate, please contact James Del Mar
james.del.mar@knightfrank.com

Change in feed-in tarrif rates



Political change

When the first edition of *The Rural Report* was published in 2010 we were just adjusting to the realities of a coalition government. Clearly that didn't suit the UK public which elected a Conservative majority earlier this year. In May 2020 we'll find out if the balance of power will swing again. In the meantime, the big political event will be the EU referendum due to take place in 2016 or 2017. Other important issues include the outcome of the controversial Transatlantic Trade & Investment Partnership (TTIP) negotiations, further CAP reform and Scottish parliamentary elections.

2010	UK GENERAL ELECTION	Conservative/ Lib Dem coalition formed
2011	CAP REFORM	EU Commissions published first proposals
2012	NPPF	National Planning Policy Framework (NPPF) published
2013	GLOBAL TRADE	EU Commission, Council and Parliament agree on EU starts negotiating Transatlantic Trade and Investment Partnership (TTIP)
2014	SCOTTISH REFERENDUM	Scots vote to remain part of the UK
2015	UK GENERAL ELECTION	Conservatives win outright majority, SNP wins all but one seat in Scotland
2016	EUROPEAN REFERENDUM	Late 2016 considered most likely time for poll + Deal on TTIP potentially agreed + Scottish parliamentary elections
2017	CAP REFORM	Potential mid-term review
2018	CAP REFORM	EU commission must evaluate current round of CAP reform by 31 December
2019	EUROPEAN REFERENDUM	Earliest UK could exit the EU if majority vote to leave in referendum
2020	UK GENERAL ELECTION*	Conservative majority 11/8 Labour majority 10/3 No overall majority 5/4 * William Hill odds as of 4/9/2015

Issues and insights

Conservation Conversation

The Rural Report talks to respected author Charlie Pye-Smith about his new book **The Facts of Rural Life**, which claims UK conservation policy is being driven by single-interest groups and bad science

Rural Report. WHAT IS WRONG WITH CONSERVATION POLICY IN THE UK AND IS THE SITUATION GETTING WORSE?

Charlie Pye-Smith. That's a huge question! Clearly, there are problems with conservation policy, as we have seen a steady decline in the populations of many species. Almost two-thirds of the 3000-odd species for which we have quantitative data have declined over the last 50 years. What I've tried to do in The Facts of Rural Life is focus on one aspect of conservation – the need to control, and sometimes cull, certain species in order that other, often much rarer species can thrive. For example, if you don't control foxes and crows in the uplands, you'll have many fewer ground-nesting birds like curlews and golden plover.

RR. WHAT WERE THE WORST EXAMPLES OF BAD WILDLIFE MANAGEMENT CONSERVATION POLICY YOU CAME ACROSS WHEN RESEARCHING THE BOOK?

CPS. It is abundantly clear that the 2004 Hunting Act has done the fox no favours, and probably much harm. It seems likely that foxes are now being killed, by shooting and snaring, in larger numbers than they were before the Act, and that implies greater levels of suffering. Then there's badgers and bovine TB. We're not going to eradicate the disease in cattle if we fail to reduce the disease in the wildlife reservoir. That means we need a robust policy for identifying and culling infected badgers.

RR. WHY DO YOU THINK THAT SITUATION HAS ARISEN?

CPS. Certain species are now causing significant problems, for both wildlife and farmers, because our ancestors eradicated apex predators like wolves, bear and lynx. As a result, medium-sized predators – for example, foxes and badgers – and large herbivores such as red and roe deer, no longer have any natural enemies. It is now up to us to control their numbers, and frequently we're failing to do so effectively.

RR. AND WHAT ARE THE UNINTENDED CONSEQUENCES?

CPS. There are many. Take, for example, the deer population. In some parts of the country, deer are so numerous that they're eating out the herb and shrub layer of native woodlands, to the detriment of both the vegetation and birds like wood warblers and nightingales. That's an ecological unintended consequence. Then there's the fact that if we fail to adequately control certain species by over-protecting them, there's a good chance some people will take the law into their own hands. That's what's happening with badgers, which are being killed illegally in some parts the country. The inflexibility of the current wildlife legal system has encouraged abuse, rather than stamped it out.

RR. IS THE SITUATION REDEEMABLE AND IF SO WHAT IS THE SOLUTION?

CPS. I think it is redeemable, but it will require a change in attitude. At present, politicians are reluctant to do anything that upsets the powerful protectionist and animal rights lobbies. Wildlife management, and the laws which support it, should be based on good science and strong evidence. To give just one example, the DEFRA Hen Harrier Action Plan, which is based on scientific research, could help restore hen harrier numbers on English grouse moors – but the RSPB remains opposed to one of its key elements, brood management.

RR. WHAT ARE THE LIKELY CONSEQUENCES IF WE DON'T DO ANYTHING?

CPS. If we want a countryside rich in biodiversity, where farmers can go about their business without their livestock being imperilled, we are going to have to accept greater responsibility for managing wildlife. The status quo simply isn't working, and that implies that we need to scrutinise the current wildlife legal system and work out how to improve it.

BIOGRAPHY
Charlie Pye-Smith studied zoology and botany at university before becoming a freelance author and journalist specialising in conservation and development issues.
www.charliepyesmith.com

The Facts of Rural Life can be purchased through Brian Fanshawe, Old School House, Ashley, Tetbury, Glos GL8 8SX with a cheque for £10 payable to VAWM

Challenges and opportunities

The Rural Report reveals the results of the Knight Frank Rural Business Sentiment Survey and overleaf asks leading industry figures what **they** see as the biggest challenges and opportunities facing farms and estates over the next five years

Over the summer we asked you what were the positive and negative factors affecting your business, what was your outlook for the future and how you felt about some of the big issues affecting rural areas.

The answers are summarised in the following charts and make for interesting reading.

In terms of things that have had a negative impact on your profits over the past five years, fly-tipping and crime were the most prevalent factors, followed by poor broadband and the government's attitude to farming.

However, 13% of respondents said their profits had increased significantly during that time, compared with 9% who said they had fallen significantly.

Looking forward over the next five years, only 9% of you expect profits to rise significantly, but on a positive note more people still expect profits to rise or remain the same than to decline. CAP reform, employment legislation and commodity prices all grew in terms of their potentially negative impact, although crime and fly tipping remain the biggest concerns.

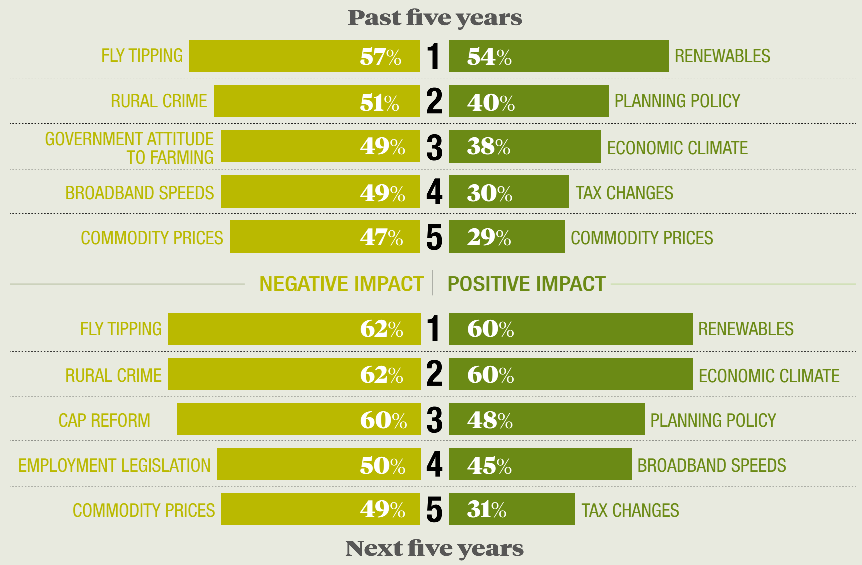
Renewable energy was the most widespread factor identified to have helped profitability over the past five years, and that continues for the next five years, followed by a general improvement in the economy.

Whether the UK should remain in the EU or not is likely to be the defining political issue of the next few years, but regardless of your personal views on membership, you overwhelmingly believe that being in the EU, rather than outside it, is better for your businesses.

For a more detailed analysis of the survey results please go to **KnightFrankBlog.com/ruralbulletin**

Threats and opportunities

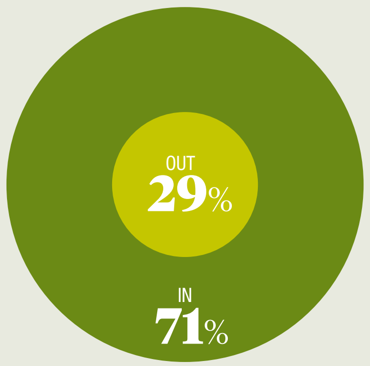
The top five factors affecting past and future profitability
Percentages = respondents who said issue had an effect on profitability



Source for charts: The Knight Frank Rural Sentiment Survey 2015

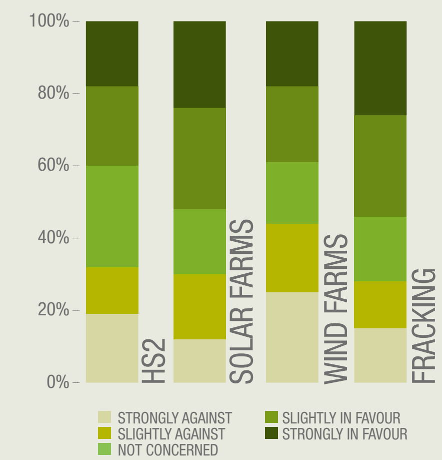
Europe

Are rural businesses in the UK better off in or out of the EU?
(% of respondents)



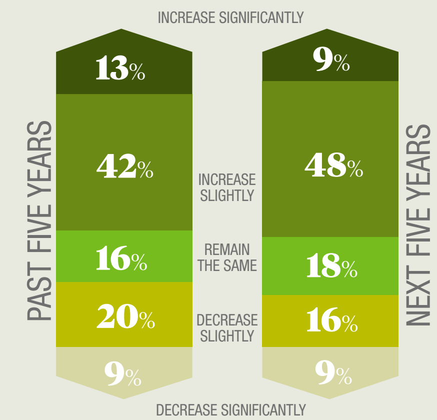
Big issues

How rural property owners feel about the issues making the headlines



Business performance

How rural businesses view their past and future profitability
(% of respondents)



Issues and insights

My view

Influential figures from across the farming and rural property sectors share what they view as the biggest challenges and opportunities for the sector over the next five years

The Banker

ALLAN WILKINSON
Head of Food and Agriculture, HSBC

Securing resilience and continued business efficiency with lower costs of operation will be at the forefront of thoughts and discussions for many across the UK Agriculture sector in the coming five years. As I write during harvest 2015, all key commodities are at a considerably lower value for UK farmers than they were a matter of months ago, highlighting the permanence of the impact of the global market place. As such, the relationship that farm businesses have with their customer – most likely a processor – will become far closer, particularly as supply chains are streamlined to meet changing consumer needs, via new products and the ever changing route of delivery to the end consumer.

The Scottish Landowner

DAVID JOHNSTONE
Chairman of Scottish Land & Estates

Frequently the land reform debate is couched in a narrative of who owns how much, but it is just as important to know what is owned, and by who. We have long supported measures to improve the visibility and transparency of ownership of land, as demonstrated in our Landowners' Commitment. This needs to apply to all forms of ownership – public, community and private. At the moment, around 58% of all Scottish properties are on the land register, only around 27% of Scotland's land mass. We are working with our members and Registers of Scotland to voluntarily complete this register. In doing so, transparency can be achieved and confusion over boundaries – so often a feature of land-based businesses – can be consigned to the past.

The Farmer

JAMES TOWNSHEND
CEO Velcourt

The current situation is simply not sustainable for UK farmers. Reducing the unit cost of production is the highest priority: inevitably both those that supply the industry and landowners will have to share the pain. But how do we produce more with less? If we are to achieve this there has to be a change in mind set over the development and adoption of new technology within the UK. The Agritech Strategy is a starting point, but for it to succeed the industry has to convince consumers that good science is on the side of the wider environment and their own health and financial wellbeing, as well as being good for producers' pockets.

The Economist

SEAN RICKARD
Industry analyst, commentator & former NFU Chief Economist

UK agriculture will face the trilemma of: increasing output, reducing its use of natural resources, and climate change. Rising to the trilemma will involve adopting advances in biotechnology and precision farming as well as an increasing scale of farm. Precision farming – essentially the fusing of information and engineering technology – has the potential not only to increase output but also to ensure that the use of scarce natural resources is minimised. In contrast to the adoption of biotechnological advances precision farming involves expensive investment. In this respect larger scale farms have an inherent advantage: owing to economies of scale they have greater access to investment funds and a larger output over which to spread the cost.

The Institutional Landowner

KEN JONES
Director of Rural and Coastal, The Crown Estate

The big challenge the industry needs to overcome is that it is getting too old and this is affecting productivity. Some of this is structural – AHA tenancies are certainly not serving the farming sector as they were originally intended and are actually acting as a handbrake on the tenanted sector. But there is also a lack of succession planning and there are far too many "farmers" who are not farming their land. This will ultimately be toxic because too many contract-farming agreements will not provide the long-term stewardship that farmland, our country's greatest asset, requires. The next five years could be incredibly exciting but we need farmers and farmland with the energy to drive the industry forward.

The Lobbyist

HENRY ROBINSON
President, CLA

We are all completely reliant on the UK's natural capital, a considerable amount of which is managed by landowners and farmers, yet its protection is largely either ignored by policymakers or treated as a hindrance to growth or development. As we look forward to the next 20 years, creating a policy framework that better appreciates its true value must be a priority, including putting in place mechanisms to ensure that the contribution of rural land and property owners, who already do so much to provide and maintain our natural environment, are properly recognised and rewarded for their efforts.

The Politician

OWEN PATERSON
Rural MP and former Secretary of State for DEFRA

The biggest challenge will be winning the argument with what I termed the "green blob" that growing the rural economy – the basis of which has to be profitable food production – and protecting the rural environment are not mutually exclusive. We can only improve the countryside if we have the money to do it. Adopting technologies such as GM will enable us to produce more food from less, use less pesticides and actually free up more land for conservation and recreation. Despite what some conservationists believe we can't let the countryside look after itself. Whether it's badger populations or water courses, they need to be managed.

The Consultant

JAMES DEL MAR
Head of Rural Consultancy, Knight Frank

The overriding ambition for many private clients is safeguarding their estates for future generations. Surrounding this will be all manner of threats and opportunities – some long-term, and some that will come and go. But the biggest challenge is not how to react to each one on an ad-hoc basis, but to have a coherent strategy in place for dealing with them. An imminent challenge will be a rise in interest rates. People have become accustomed to a base rate of just 0.5% and too few in my experience have "stress-tested" their estates to see how they will cope with rises of varying magnitudes. Equally, we have seen massive volatility in both commodity prices and tax legislation – very few businesses have modelled and thought about how they will continue to survive at existing profitability levels if these phenomena continue.

5,870%

INCREASE IN FARMLAND VALUES DURING THE REIGN OF QUEEN ELIZABETH II, THE UK'S LONGEST SERVING MONARCH

RURAL PROPERTY MARKETS

CHANGING VALUES AND FUTURE OUTLOOK

In this section

Rural Property Markets

Are the fields still gold?

Land is the underlying asset that forms the basis of most rural businesses. Knight Frank's experts examine the performance of key markets over the past five years and predict where they might be heading over the next five

CLIVE HOPKINS, HEAD OF FARMS & ESTATES

The past five years have seen the performance of farmland continue on the same trajectory that it has been following since 2008 – onwards and upwards with only a few pauses for breath.

In England and Wales (see page 18 for more on Scotland), the average value of bare agricultural land has risen by 43% to about £8,300/acre, according to the Knight Frank Farmland Index.

Looking back at my commentary in the first edition of *The Rural Report* in 2010, I reported that sales at £7,000/acre were not uncommon and in my opinion would regularly top £10,000/acre within five years. Fast forward to 2015 and we can confidently say deals at over £10,000/acre are par for the course now, with £12,000/acre or more regularly being achieved for large blocks of land (see page 20 for more details on the investment market).

Such has been the strength of the land market that the perceived wisdom that selling a country house and the surrounding land together creates a "marriage" value premium has been turned on its head.

For the first time that I can remember, large blocks of farmland have frequently attracted more interest and made more money when sold separately from the core of an estate rather than together. The sluggish recovery of the prime country house market from the global financial crisis is also contributing to the trend.

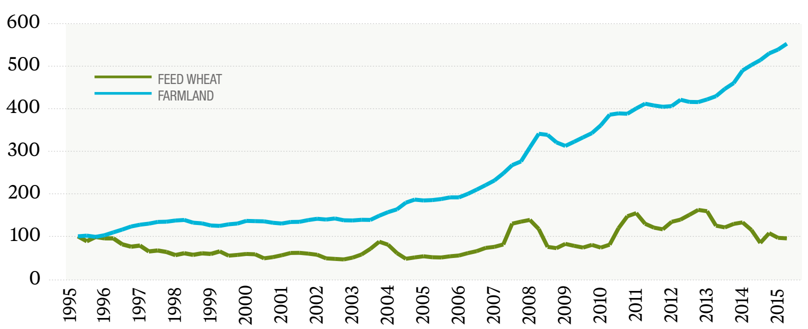
So what has been driving the growth in farmland values? As the graph below comparing farmland values to wheat prices highlights, the link between commodity prices and land prices has been tenuous to say the least over the past five years.

That is not to say it doesn't exist at all. The interest from certain types of investors tends to fluctuate in line with commodity cycles, while farmer confidence and the ability to fund expansion is of course ultimately linked to farm profitability. If commodity markets stay low, this will eventually have an impact on land prices.

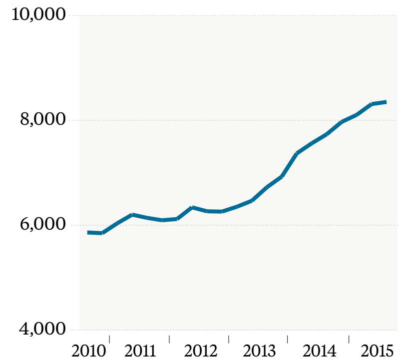
That is part of the reason why we are seeing the growth in values start to flatten, with a rise of just 0.5% in the third quarter of 2015. Supply is also starting to match demand with a 20% year-on-year increase in the amount of farmland for sale publicly so far this year.

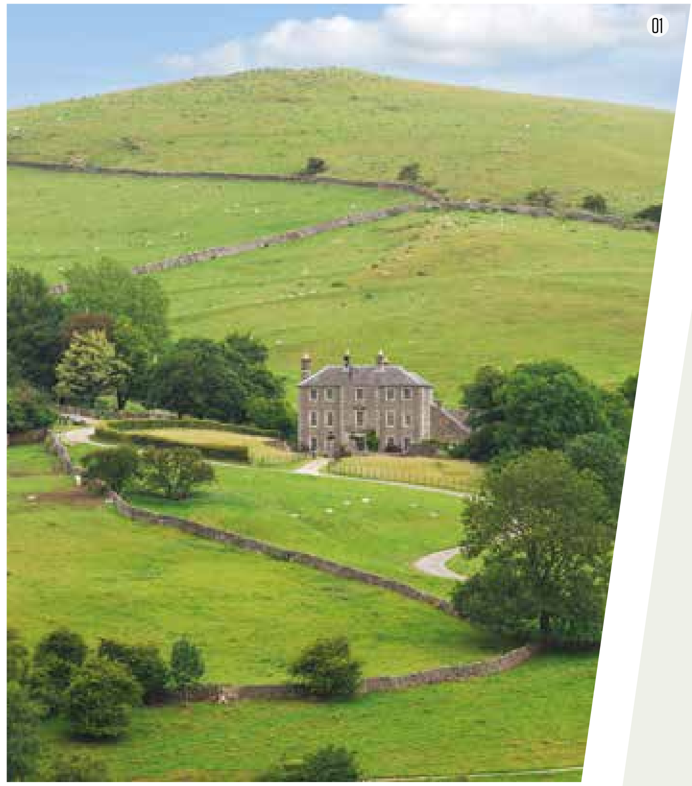
However, availability remains low in historic terms and I am not expecting a significant fall in prices, more of a plateauing until the market regains momentum.

Farmland values v wheat price
Index 100=June 1995



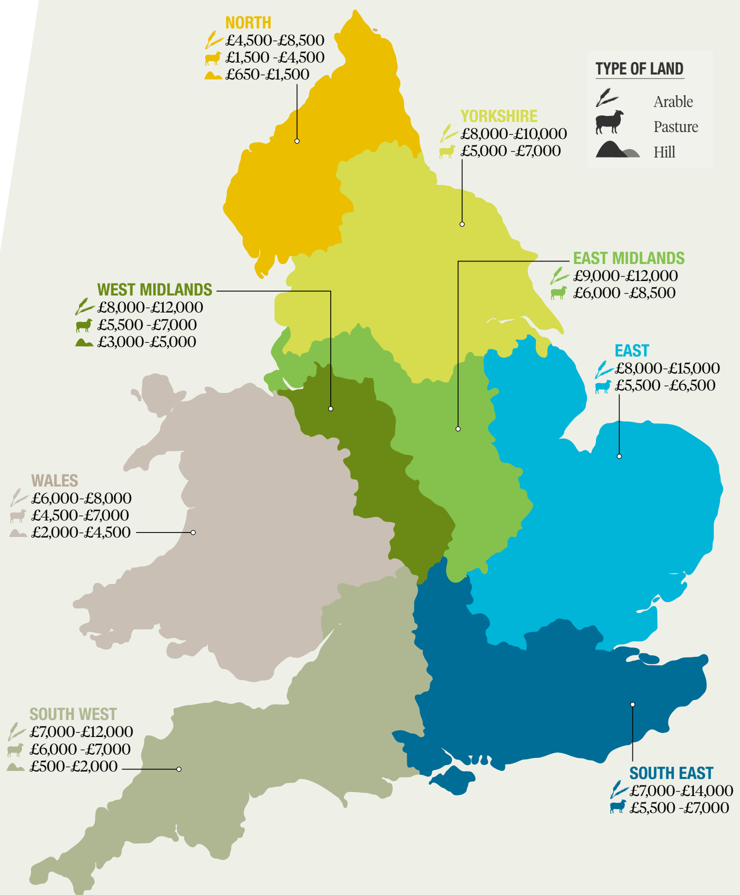
English farmland values
£/acre





PREVIOUS PAGE: PLAS GWYN, ANGLESEY/2,075 ACRES LAND AND SPORTING RIGHTS/GUIDE PRICE £5M **01:** CASTERNE HALL, DERBYSHIRE/182 ACRES/GUIDE PRICE £3.25M
02: RUMMERS FARM, CAMBRIDGESHIRE/560 ACRES/GUIDE PRICE £6M **03:** AGRICULTURAL AND SPORTING ESTATE, EAST ANGLIA/2,145 ACRES/PRIVATELY AVAILABLE

Typical UK Farmland value
(£/acre)



Regional price differences

JAMES PREWETT, HEAD OF REGIONAL FARMS

As mentioned elsewhere on these pages, the average value of farmland is at an all-time high. However, at the same time I have never seen such a variation in prices across the country, not just at a regional scale as shown on the map above, but at a very local level as well.

The interest we have received for separate lots on a farm we are selling in southern England, suggests values can vary by as much as £4,000/acre in the space of a few metres. With commodity prices in the doldrums land quality is becoming more important, but there are many other factors at play that make it hard to accurately price land at the moment.

Scale is important as larger blocks carry a premium, especially for investors, but even smaller parcels of land can achieve very high prices. Depth of demand is really the key, and because there are so many different reasons why people buy farmland it is difficult to predict who the potential buyers may be.

In a recent sale for example two people, one a farmer with development proceeds to rollover, the other a neighbouring landowner, were bidding on a 270-acre block of land in Warwickshire and this pushed the value up to £12,000/acre.

By comparison there was only one interested party in 220 acres of arable and pasture land I sold in Oxfordshire so it only fetched £7,750/acre.

I think this trend is only likely to continue. While overall the market will remain firm, some sales will surprise, while others may disappoint. Sensible pricing and careful marketing will be key to avoid the latter.

Rural Property Markets

Scottish rural property

RAN MORGAN, HEAD OF KNIGHT FRANK SCOTLAND,
TOM STEWART-MOORE, HEAD OF SCOTTISH FARM SALES

Land reform. Tenancy reform. Stamp Duty reform. CAP reform. Seismic political change. Where to begin! The Scottish rural property market has certainly had to deal with more than its fair share of challenges over the past five years.

But what is reassuring is that markets in general have remained resilient - farmland in particular has proved particularly robust. According to the Knight Frank Scottish Farmland Index, the average value for all types of bare agricultural land has risen by 34% to £4,437/acre. Good quality arable land has been most in demand with prices increasing 59% to £9,046/acre.

Although land reform has grabbed the most media headlines and might have been of concern to some potential farmland buyers, in reality it will affect very few agricultural holdings. Even tenancy reform will have a limited impact because most farms are sold with vacant possession.

Commodity prices and the reform of the Common Agricultural Policy (CAP) are more of a concern because they directly affect the bottom line of producers. Price growth has started to slow this year as farmers become a bit more cautious about acquiring extra land.

This trend will probably be reflected most in the market for smaller livestock units – we are already seeing a slight increase in the number being put up for sale - but the relative scarcity of large blocks of arable land will help to underpin that part of the market and we wouldn't expect prices to fall back to any great degree.

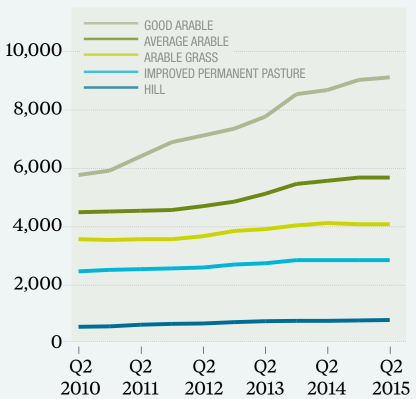
Land reform has definitely had more of an impact on the estate market, and the idea bandied about by the media that the resurgent SNP is waging some kind of class warfare hasn't helped. But in reality Scottish politicians of any hue know full well how important the rural economy is to the country and won't want to jeopardise that once the posturing has passed.

The market is still cautious, but overseas buyers who make up a large proportion of purchasers seem fairly sanguine – the Land Reform Bill, published in June, didn't place any restrictions on overseas ownership as some had feared. We have already sold two 10,000-acre estates in 2015 and have had plenty of interest in the other estates we are selling.

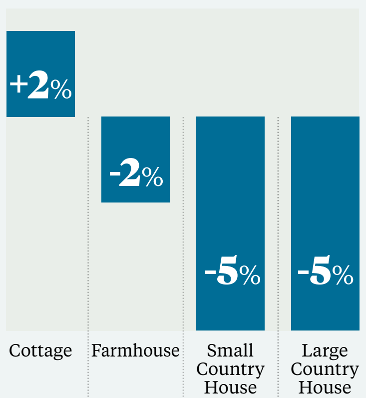
Scotland's landscape and sporting opportunities will remain unique regardless of what politicians get up to. In a global context they also look incredibly good value. Not many places offer vast areas of virtual wilderness just a few hours flight from one of the world's most important financial centres.

The replacement of Stamp Duty Land Tax on 1 April 2015 with the Land and Building Transaction Tax (LBTT), which has seen the purchase costs for a £1.5m house rise by 80%, has certainly affected the top end of the residential property market. However, rural properties that include a genuine commercial element such as farmland will qualify for the 4.5% mixed-use rate of LBBT.

Average Scottish farmland values by type £/acre



Scottish country houses
Five-year price change



01: THE KINNAIRD ESTATE/6,227 ACRES/OFFERS OVER £9.6M **02**: THE CLUAINE & EAST GLENQUOICH ESTATE/20,554 ACRES/SOLD FOR OVER THE £4.55M ASKING PRICE

LAND REFORM IN A NUTSHELL

Published on 23 June 2015, the long-anticipated Land Reform Bill covered 10 areas. Thankfully, a notable omission from the earlier Land Reform Consultation was the proposal to restrict who can own land or take a long lease over land in Scotland.

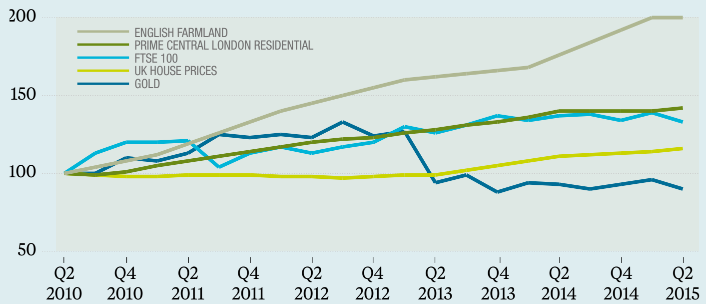
1. Scottish ministers to create a statement on land rights and responsibilities
2. The establishment of a Scottish Land Commission including a tenant farming commissioner that will review relevant policy and legislation, and police tenancy codes of conduct
3. New powers that could force the disclosure of information regarding the ultimate beneficiaries of land-owning trusts and companies
4. Increase engagement of communities and landowners. Potential penalties for owners who do not co-operate
5. Community right to buy for land that could be used to further as yet undefined "sustainable development"
6. Removal of business rates exemption for sporting estates
7. Local authorities will be allowed to apply to the court to appropriate inalienable common good land
8. Changes to the arrangements for deer management
9. Public access to land and review of core paths
10. Sweeping changes to agricultural tenancy legislation, including new modern limited duration tenancies' (MLDTs) for all new tenancy agreements

Rural Property Markets

Investment farmland

TOM RAYNHAM, HEAD OF AGRICULTURAL INVESTMENTS

Investment farmland performance v other assets
Index 100=Q2 2010



While the average value of English farmland has increased by 43% over the past five years, the market for larger blocks of good quality land of interest to investors has shown even stronger growth.

Such has been the demand from investors, ranging from private wealthy individuals to pension funds, that we decided to create the Knight Frank Investment Farmland Index earlier this year.

The index, which measures the change in the value of blocks of land over 1,000 acres in size, has risen by 100% over the past five years. The average price of investment-grade land is now £12,500/acre, although deals have been done at significantly higher levels.

This compares with a 33% increase in the value of the FTSE 100 and a 10% drop in the value of gold (to the end of June 2015). Even luxury houses in London have only managed a 42% increase.

Of course, it is not just investors buying large blocks of land, but their presence in the market has created competition with traditional buyers such as farmers for what has been a scarce resource over the past few years.

Although prices have been rising sharply, most buyers are motivated by a long-term desire to hold and develop a tangible and secure asset, rather than a speculative short-term outlook.

An increase in the number of large blocks of arable land for sale means the market is more in equilibrium than it has been over the past five years. This means that although demand remains strong, price growth has started to flatten out this year.

Potential buyers are also starting to look outside the traditional investment areas like East Anglia in a bid to get a bit more for their money. Good arable land in the north of England and Scotland is definitely on the radar.

Development land

DAVID FENTON, KNIGHT FRANK RESIDENTIAL DEVELOPMENT

Five years ago, activity in the residential development land market outside London was still reeling from the effects of the global financial crisis.

Since then the market has strengthened markedly, not least because of the improvement in the UK's economic performance, but also because of changes to planning policy. The much-discussed shortage of housing seemed to gain traction among politicians after the 2010 election – the number of houses built in England fell to a record low of fewer than 107,000 that year (see chart opposite), down from an average of around 150,000 a year in the decade leading up to the financial crisis (200,000 to 250,000 a year is considered the required number).

As a result, the National Planning Policy Framework (NPPF) was introduced in March 2012. This emphasised that while the power to decide on development should be taken at a local level, the presumption should be in favour of development. The government also introduced the Help to Buy scheme. The result of these moves has been a rise in planning permissions granted, houses built and transactions.

Looking at more recent trends in development land prices, housebuilders, who were able to replenish their pipeline of land throughout 2013 and 2014, have become more selective about the sites they choose. This slowdown in demand has coincided with a continuing increase in build costs – the price of everything from labour to bricks has been rising since early last year. As a result, land prices have dipped marginally since the beginning of the year, but they are still higher than the levels seen in 2012.

It is also important to remember that the development land market is highly regionalised, reflecting the dynamics of local housing markets. It is not unusual to see a wide spread of land values across fairly small areas dependent on the location of, and amenities close to, a potential site. Sites for well-located smaller developments of between 50 and 150 houses can still command a premium.

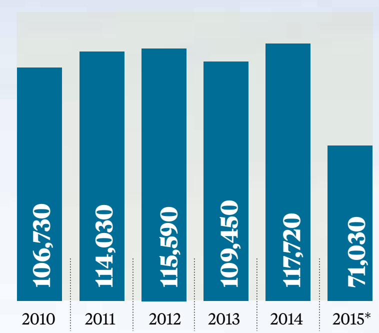
International investment farmland values

COUNTRY	AVERAGE PRICE/ACRE Local or prevailing currency	Sterling
UK	£12,500	12,500
New Zealand*	NZ$14,300	5,983
Argentina	US$6,900	4,510
US**	US$6,840	4,470
Brazil	US$3,650	2,390
Zambia	US$2,800	1,830
Lithuania	€ 2,230	1,630
Romania	€ 2,000	1,460
Australia	AU$1,800	830
Canada	CA$1,600	800
Russia	US$750	490

Values are for bare investment-grade arable land, except as per below.
Values are indicative only and may vary widely.
*Equipped dairy units **Equipped arable units

Sources: USDA; REINZ, Statistics Canada; Brown & Co; Knight Frank Australia, UK and Zambia; Terravost

Development – new housing completions



Source: Knight Frank Residential Research, DCLG
* To Q2

International farmland

ANDREW SHIRLEY, HEAD OF RURAL RESEARCH

Farmland investment is a global phenomenon, but as the commodities super-cycle continues to burn itself out, how are markets around the world faring?

Interestingly, there is no consistent answer. Take Latin America for example, given the political and economic problems afflicting Brazil and Argentina, one might expect land values to be falling there.

Not so for the best land, says Stephen Hall, of consultant Brown & Co, although he is wary about overseas investment into either country and both impose limits on foreign ownership.

"Currency exchange restrictions in Argentina make it difficult for individuals to take their money out of the country so farmland is something tangible for them to invest in." The pampa west of Buenos Aires is some of the best land in the world and sells for between $10,000 and $17,000 per hectare.

Heading north, values in the US Corn Belt have started to reflect falling commodity prices. According to the latest report from the USDA average values fell by 0.3% between 2014 and 2015, compared with an increase of 8% the previous year. In Canada values are expected to flatten this year, compared with consistent annual double-digit growth over the past four years.

Despite the fall in commodity values there is still significant investment interest in Australian farmland, including from China, says Laurence Toohey of Knight Frank's Wagga Wagga office. "We have seen a bit of a surge over the past 12 months. Previous drought issues, however, have held values back over the past five years," he adds.

In New Zealand, dairy farm values fell by 12% in the 12 months to July, according to REINZ.

Irrigated land in Africa continues to attract international investors, says Tanya Ware of Knight Frank Zambia. But political issues mean they are currently less enthusiastic about Russia and CIS countries such as the Ukraine.

Since the beginning of 2015 there have been no restrictions on farmland ownership by EU citizens in Romania and Poland. Land there can even qualify for the same Inheritance Tax reliefs as UK farmland, says Mr Hall. Baltic states like Lithuania that are set to see the biggest uplift in EU farm subsidies also offer interesting opportunities, says Carl Atkin of Terravost.

KNIGHT FRANK WORKING FOR YOU

HOW WE HELP OUR CLIENTS AND ADD VALUE TO THEIR PROPERTIES

In this section

Working for you

We are growing too

As highlighted over the previous pages, much has changed in the rural property world during the past five years. Knight Frank hasn't stood still either – we've opened new offices and expanded our rural property teams to better help our growing client base

Building Consultancy Oxford office

Key services
Project management, listed buildings, design, building surveys

Office details
280 Banbury Road, Oxford

Key contact
Daniel Maull

Our Building Consultancy team can advise on all types of property, rural or urban, and our new office in Oxford reflects the growing demand for the team's expertise from a wide range of new and existing clients, including colleges, charities, institutions and private individuals.

Rural Consultancy Cotswolds office

Key services
Estate management, strategic advice, sporting and environmental issues

Office details
Threshers Yard, Kingham

Key contact
Paddy Hoare

The Cotswolds are home to some of the UK's most desirable estates and entrepreneurial rural businesses. We were therefore delighted when Paddy Hoare, a leading local consultant, agreed to join us with his team and set up a new office at Kingham, near Stow-on-the-Wold.

Marine Solent office

Key services
Marinas, moorings, cables and pipelines

Office details
The Boatyard, Swanwick Marina

Key contact
Stephen Butterfield

As an existing advisor to The Crown Estate regarding its marine property portfolio, we were delighted to take on the management of around a further 300 miles of coastline in southern England. We retained the existing management team and opened a new office on the Solent to serve The Crown Estate and other marine clients.

Rural Consultancy Bishop's Stortford office

Key services
Investment land management, estate management, local authority portfolios

Office details
26 North Street, Bishop's Stortford

Key contacts
Alastair Paul, James Shepherd

The growing demand for our advice from estates in the east of England and the Home Counties meant a permanent base in the region was a priority. We are delighted to have now found a new home in Bishop's Stortford, as well as recruiting James Shepherd, an experienced local consultant, to join office head Alastair Paul.

Agricultural investments team

Key services
Acquisition of farmland

Office details
55 Baker Street, London

Key contact
Tom Raynham

From private UK and overseas high-net-worth individuals to institutional investors, interest in farmland as an asset class has been increasing markedly over the past five years. To help these potential buyers track down the best deals we have formed a specialist team that concentrates on the purchase of commercial agricultural investments.

Farm agency expansion

Key services
Farm sales and valuations

Office details
– Gloucester House, Dyer Street, Cirencester
– 80 Queen Street, Edinburgh

Key contacts
James Prewett
Tom Stewart-Moore
Hollie Byrne

As part of ambitious plans to expand Knight Frank's UK farm agency network, we have recruited Tom Stewart-Moore to head up farm sales in Scotland. Tom is based in our new Edinburgh city centre office. In Cirencester we have expanded the central England farm sales team with the recruitment of Hollie Byrne. Additional expansion of our network is planned.

GLOBAL EXPANSION

The rest of the Knight Frank business has also been growing. We now have **over 12,200** people working in **370** offices in **55** countries across six continents. This gives our rural clients access to a truly global network of transactional, investment, consultancy and valuation expertise and insight.

Working for you

Management Matters

Knight Frank's Rural Consultancy team helps to manage a wide variety of estates. *The Rural Report* visits a selection of new and older clients to find out more

There are many reasons people own rural estates. For some it is a pure investment, for others it is all about lifestyle and amenity.

However, for most owners the rationale will be a more complex, and often multi-generational, mix of overlapping and occasionally contradictory drivers and aspirations.

"When I start working with an estate, often my first task will be to help the owner prioritise exactly what it is they do want to achieve," explains James Del Mar, Head of Knight Frank's Rural Consultancy team.

"It may sound obvious, but the day-to-day responsibilities of running a large, capital-hungry estate can sometimes leave little time for an owner to reflect on their personal ambitions and requirements, particularly when an estate may have been in the family for generations.

"Our job is to remove that burden, and allow people to make the most of their estates, whatever their aspirations."

The diversified rural enterprise

To the casual observer it doesn't look as if Mark Robins needs any help managing the Farley Estate, which he took over 13 years ago.

In conjunction with the estate's owner Lord Bearsted, whose family purchased Grade I listed Farley Hall and 150 acres in 1952, Mr Robins has successfully reduced the estate's reliance on farming by utilising its assets, such as redundant farm buildings, to develop significant new income streams.

These include converting one farmyard into a state-of-the-art, full-service livery yard, where owners will pay up to £1,250 a month to keep their horses. Another now houses 41,000 sq ft of office, light commercial and storage space, which is highly sought after by local businesses.

Other potential new developments being looked at include a children's day nursery and solar and biomass renewable energy projects.

Although less important now in terms of overall income, the estate's agricultural activities have not been neglected.

The bulk of the 3 million litres of milk produced annually by the estates dairy herd is sold for a premium price to Marks & Spencer, while the effect of cereal price volatility has been mitigated using a carefully structured contract farming agreement.

Staff management is a key focus and the livery yard is already an Investors in People accredited employer, with the rest of the business set to follow. So, having achieved all this, why did Mr Robins feel the need to bring in Knight Frank's James Del Mar as a consultant in 2013?

"I wanted an advisor who would come in and challenge what we do and sense-check my own management decisions. Although it is nice to pay somebody who will massage your ego, it doesn't help you or the business develop," says Mr Robins.

"We were also looking for new diversification ideas," adds Lord Bearsted. "We wanted to benefit from Knight Frank's wider experience of what other estates are doing across the country."

This "fresh-eyes" approach is invaluable for even the best-run estates, says James Del Mar. "Too often estates think that if there isn't a specific problem to solve they don't need any help, but what we do is help our clients to keep their foot on the gas and not to miss any strategic opportunities."

01

01: HIGH-SPEC EQUESTRIAN FACILITIES 02: MARK ROBINS

02

"We wanted to benefit from Knight Frank's wider experience of what other estates are doing across the country"

Mark Robins

NAME: THE FARLEY ESTATE, BERKSHIRE
OWNER: LORD BEARSTED
CHIEF EXECUTIVE: MARK ROBINS
SIZE: 1,750 ACRES

Working for you

The traditional landed estate

Knight Frank has been involved with the renowned Badminton Estate for the past 15 years. *The Rural Report* talks to resident agent Simon Dring about his role

Rural Report. HOW LONG HAVE YOU WORKED AT BADMINTON FOR?

Simon Dring. I've been at Badminton for over 30 years and have been the senior resident agent for the past 15 years. It has been a privilege to be involved so deeply with such a beautiful estate and a family that cares so much about it.

RR. HOW HAS THE ROLE OF THE RESIDENT AGENT CHANGED IN THAT TIME?

SD. The role at Badminton, as with other rural estates, has both intensified and diversified. The resident agent's role is now more about financial control and co-ordinating a wide range of specialists and advisers, although luckily many of the experts I deal with are my colleagues from other departments within Knight Frank. Badminton, like many rural estates, is far more diversified than people might think. But one thing that hasn't changed is how closely I work with the Duke and his family. To me that is very important.

RR. AS A MANAGER WHAT HAVE BEEN THE MOST SIGNIFICANT CHANGES AND CHALLENGES YOU HAVE HAD TO ADAPT TO DURING THAT TIME?

SD. At Badminton one of the biggest has been the shift in income streams. In 2000 the contribution from agriculture outstripped that from residential and commercial property, now it is the other way around. But getting there has involved overseeing a significant amount of capital investment. The planning system has also become a lot more complicated and dealing with all the reports that have to be provided for any kind of development now, particularly relating to ecology, takes up a lot of my team's time. In general, there are far more regulations and liabilities that we all have to be aware of.

RR. WHAT DO YOU THINK WILL BE THE BIGGEST CHALLENGES FOR TRADITIONAL ESTATES OVER THE NEXT FIVE YEARS?

SD. Planning a sustainable future for the next generations will remain the biggest challenge for most estates. Adapting to increasingly volatile agricultural commodity markets will also be crucial. Although, as I mentioned earlier, Badminton is now less reliant on its farming income, we still have a large in-hand farming operation, and commodity prices will also influence the rental income from the estate's let farms.

RR. BADMINTON IS WORLD FAMOUS FOR ITS HORSE TRIALS. HOW DO YOU COPE WITH SUCH A LARGE EVENT?

SD. Coping is probably the wrong word as everybody on the estate is very proud and supportive of the event – we certainly don't regard it as a chore. But managing the trials is a year-round process so we do have a separate and very experienced management team to look after them. We also farm the land where the trials take place ourselves so we can keep the grass in optimum condition.

RR. WHAT ADVICE DO YOU HAVE FOR AN ESTATE PLANNING TO HOST A BIG EVENT?

SD. I think it is a prerequisite that the owners enjoy the kind of event they are hosting. You also need to have control of the land where you will hold the event, and you need to appoint a team that you and your existing workforce trust to manage it. Getting the details like traffic management right is important – people like to be able to get in and out of these events easily. And taking a long-term view is crucial – we have just made a significant investment into cabling so the trials' stallholders and visitors can access the internet via wi-fi.

RR. HOW IMPORTANT IS THE SOCIAL AND COMMUNITY ROLE PLAYED BY LARGE ESTATES SUCH AS BADMINTON?

SD. Vital, and often overlooked by those who don't understand how traditional estates work. On a local level the estate provides employment and the Duke is anxious to retain community facilities like the shop and post office in Badminton village. On a broader scale the horse trials generate a huge amount of income for businesses much further afield. But the benefits aren't just financial. Every generation of the Beaufort family has enhanced the built and natural environment around Badminton. The present Duke has restored many of the estate's historic buildings, rebuilt miles of stone walls and planted over 500,000 trees.

Find out more: **badmintonestate.co.uk**

THE BADMINTON ESTATE
OWNER: THE DUKE OF BEAUFORT

The new lifestyle owner

02

Lifestyle is generally high on the agenda of those businessmen or women successful enough to be able to afford to buy their own country estate, and Great Durnford, near Salisbury, is no exception.

Purchased in 2014 by The Buying Solution, Knight Frank's independent buying agency, on behalf of a London financier, the estate includes 2.5 miles of chalk-stream fishing and excellent pheasant and partridge shooting.

However, the new owner says that while the estate's amenity and sporting opportunities were the main attraction, he would also like it to pay its way: "It is not just a hobby farm," he emphasises.

Knight Frank's Percy Lawson was initially engaged to oversee the transition process. This included sorting out employment issues, setting up a bookkeeping system, collecting rents and switching the main tenancy on the estate's farmland to a more tax efficient contract-farming agreement.

"Buying a large house, let alone one that comes with almost 2,000 acres of land, can be pretty daunting, so having a trusted advisor on hand to ensure that all the issues that arose were taken care of discretely and that nothing was overlooked made the whole process much more manageable," says the owner.

Percy now works on a consultancy basis assisting the estate's manager Matt Gentle with budgeting and bookkeeping, as well as providing ongoing technical advice.

"There are so many issues that affect estates, from changes in employment law to tax legislation, that it can be difficult for an individual owner or a solo in-house estate manager to keep up to speed with everything. I aim to ensure all my clients can enjoy their estates."

Mr Gentle, agrees. "It is very reassuring to know that Percy is there. There are a lot of important technical issues, such as choosing the right insurance, that seem quite mundane, but if you get them wrong they quickly come back to bite you."

GREAT DURNFORD ESTATE
OWNER: PRIVATE INDIVIDUAL
MANAGER: MATT GENTLE
SIZE: 1,100 ACRES

The not-for-dividend housing developer

Some estate owners are constantly looking for new opportunities, but Places for People, which bought The Gilston Park Estate, near Harlow, two years ago, has a very clear single objective.

In a bid to help ease the chronic shortage of housing in the area, the not-for-dividend housing provider has spent over seven years developing innovative plans to create six village-like settlements surrounded by over one thousand acres of natural and landscaped open space and woodland.

Knight Frank's Alastair Paul, head of the firm's new Bishop's Stortford Rural Consultancy office, has been managing the estate since it was purchased by Places for People.

Some might see this as something of an uninvolved caretaker role until planning permission is granted for the scheme.

Alastair, however, views things very differently. "Because of the long-term development proposals, this is an estate that still needs to be run immaculately and Places for People is very keen to be a responsible landowner and landlord."

"Our advice has to keep clear sight of our client's strategic aim and we try to ensure that they are not distracted from that goal with day-to-day issues, essentially we try to make their life as easy as possible. In the context of the development, our recommendations have to involve a number of factors that do not affect other estates and portfolios, a lack of such considerations could have disastrous impacts on the value of the estate."

Building a good relationship with the estate's farming, residential and commercial tenants, parish councils and the local community is vital and far too often over looked, he also adds.

"Any development scheme is going to be controversial but Places for People has done a lot to build bridges and I believe that we have helped that process," says Alastair.

"Gilston Park is the first large unconsented rural site that we have purchased, so having Alastair's steady hand on the tiller managing the estate as we work hard to deliver a scheme that remains sympathetic to the local environment while providing much-needed housing has been very reassuring," says Mary Parsons, Group Director at Places for People.

01

PHOTOGRAPHY **HUGH NUTT**

THE GILSTON PARK ESTATE, ESSEX
OWNER: PLACES FOR PEOPLE
GROUP DIRECTOR: MARY PARSONS
SIZE: 3,000 ACRES

01: KNIGHT FRANK'S ALASTAIR PAUL AND MARY PARSONS OF PLACES FOR PEOPLE DISCUSS STRATEGY 02: THE GREAT DURNFORD ESTATE

Working for you

> Everything has to be carefully considered within the parameters of maintaining water quality and the environmental designations
>
> Edward Dixon

The FTSE 100 utilities business

Having to meet the aspirations of a number of different stakeholders when managing an estate is not unusual, but when they include one of the UK's biggest conservation charities, most of the people living in Liverpool, the shareholders of a highly regulated utilities business and the Welsh government, some managers might find the task a little daunting.

However, for Knight Frank's Edward Dixon bringing together the interests of so many parties is what makes managing the 23,500-acre Lake Vyrnwy estate in Mid Wales, which he has been involved with since 2010, so exciting.

"Although my client is Severn Trent, I work very closely with a whole range of stakeholders, including Natural Resources Wales, the local community, the RSPB, the estate's tenant farmers, a sporting syndicate and the local tourist organisations.

"Helping to create and deliver a management strategy that looks at the short, medium and long-term future of the estate and works for all these groups has been very rewarding."

The Lake Vyrnwy reservoir and surrounding estate was created in the 1880s by the Liverpool Corporation to provide clean water for the city and it still supplies about 60% of residents. It passed to Severn Trent, the UK's second-largest water company, in 1989 when the water industry was privatised.

Protecting the quality of the water supply is obviously a priority and the estate's importance for wildlife confers a very high level of environmental designation – it is a Site of Special Scientific Interest (SSSI) as well as a Special Area of Conservation (SAC).

"Lake Vyrnwy really is one of the jewels in the crown of Mid Wales, and we are proud to be involved in the custodianship of such a special place to work, live and visit," says James Bowling, Severn Trent's Chief Financial Officer.

One of the first actions to come out of the estate's new management plan was agreeing a 12,000-acre, 30-year farm business tenancy with the RSPB earlier this year.

"For me the key aspect of this deal was that it gave the RSPB a long-term reason to invest in the estate and make the time to access the conservation grants available from the EU and other eco-funds," explains Mr Bowling.

The surrounding community also benefits he adds. "We are already starting to see the multiplier effects of the agreement with the recruitment of a young farm manager and more work for local agricultural contractors. From a personal perspective it also means I am no longer the only CFO of a FTSE 100 company responsible for 3,000 sheep."

Unlocking further economic potential is a key part of the long-term strategy for the estate. This includes working with the estate's seven tenanted farms to help them innovate and diversify their income streams, and exploring the renewable energy and recreational opportunities offered by the lake and surrounding land.

"We have a lot of exciting ideas, but everything has to be carefully considered within the parameters of maintaining water quality and the environmental designations," explains Edward. "We couldn't have motorised water sports on the lake, for example, in case any fuel or oil polluted the water."

"One of the reasons Severn Trent chose Knight Frank to manage the estate was its experience of working in the rural sector and ability to engage with all the lake's stakeholders," says Ted Pearce, Director of Property at the business.

"Edward and his team have a brilliant working relationship with the tenants and have been a great bridge with the local community – good management is all about people."

THE LAKE VRYNWY ESTATE
OWNER: SEVERN TRENT WATER
PROPERTY DIRECTOR: TED PEARCE
SIZE: 23,500 ACRES

01: LAKE VYRNWY ESTATE IN MID WALES 02: EDWARD DIXON TALKING TO TED PEARCE AND JAMES BOWLING


01
PHOTOGRAPHY **RICHARD STANTON**


02
PHOTOGRAPHY **RICHARD STANTON**

Dear Tom...

Tom Barrow, Knight Frank's Head of Country Valuations, delves into his inbox to shed light on some topical tax and valuation issues of concern to rural property owners

I am thinking of selling my country house, but I am worried that the recent Stamp Duty increase will put off some buyers. I have heard that the rate for mixed-use properties is much less, but I am not sure if my property qualifies. Can you help?

Stamp Duty Land Tax (SDLT) was restructured with effect from 4 December 2014. The changes mean that anybody buying a high-value house will have to pay a 12% charge on the value of their purchase over £1.5m. An even higher 15% rate applies for properties over £500,000 purchased by 'non-natural persons', such as companies.

However, the SDLT rate paid on the value of mixed-use properties over £500,000 is only 4% – a very significant difference. A mixed-use property is one that includes residential and non-residential elements, including, for example, commercial farmland. This suggests that if your property, as many large country houses do, includes some agricultural land then it will qualify for the much lower mixed rate of SDLT.

However, there are of course grey areas. It is arguable, for example, whether a paddock just used to keep ponies would qualify.

It is essential to take professional advice and plan ahead so that any sale can be structured to ensure it qualifies as mixed use. The Valuation Office Agency (VOA), which acts for HM Revenue & Customs (HMRC), will review every case and their views are not always consistent.

When my daughter inherits my farm, I want to ensure she pays as little tax as possible, what can I do?

The good news is that Agricultural Property Relief (APR) can provide 100% relief from Inheritance Tax (IHT), but careful planning is essential to maximise the benefits and there are a number of traps for the unwary, particularly regarding farmhouses.

Just because you own a farm and live in a farmhouse it doesn't automatically mean your entire estate will qualify for APR. If you let land under a pre-1995 agricultural tenancy it will only qualify for 50% APR. If that is the case consider asking your tenant to agree to a new tenancy that will qualify for 100% relief.

HMRC is also paying much closer attention to APR claims on farmhouses. Following the landmark Antrobus case, the farmhouse needs to be character appropriate to the farm – a very large farmhouse on a small acreage may not qualify. You also need to show that the principal occupier of the farmhouse is actively involved with the management of the farm, so if you rent all your land you won't qualify and you also need to be careful that any contract farming agreements are structured correctly to prove sufficient levels of management and exposure to risk for the landowner.

Even if all the criteria are met, the VOA may try to limit APR to the notional value of the farmhouse if it was subject to an Agricultural Occupancy Condition (AOC). Holding farm meetings in the farmhouse and using part of it as a dedicated farm office can help.

APR is only available on the agricultural value of land. It won't apply for example to any development value or any non-agricultural value. Business Property Relief (BPR) however may be available on that portion. Also, be careful about the use of farm buildings for diversified businesses. A barn used for storing caravans would not qualify for APR, and if you diversify too much you may no longer be considered a farmer.

I have heard that houses with very large gardens or grounds may not qualify for Principal Private Residence (PPR) relief when they are sold. Is this true? I am thinking of selling and don't want a large bill for Capital Gains Tax (CGT).

PPR relief ensures that when a person disposes of their principal residence no CGT is payable – subject of course to certain criteria being met.

This applies to the 'permitted area', which includes the principal house and its gardens and grounds up to 1.23 acres. If your gardens and grounds exceed this area, you may not be entitled to relief for all of it. A larger area of gardens and grounds may be permitted but it must be shown to be required for the reasonable enjoyment of the principal house.

The size and character of the dwelling house is taken into consideration. Land used for agriculture, commercial woodland, trade or business will not qualify as part of the permitted area. HMRC closely examines each case. Secondary dwellings will not qualify if they have been let on a commercial basis such as subject to an Assured Shorthold Tenancy (AST). Others may qualify depending upon their use and proximity to the principal house.

There is custom and case law as regards to the exact size of an exempt area which is dependent on the individual circumstances of each property. A forensic analysis of land and property together with its use is considered prudent prior to any sale.

Tom Barrow is Head of Country Valuations at Knight Frank.
For advice on the matters raised please contact:
tom.barrow@knightfrank.com +44 20 7861 1438

Working for you

Bricks & Mortar

Knight Frank's Building Consultancy team can create a glorious country house from scratch, but its experts also provide a wide range of specialist advice to clients in both town and country. *The Rural Report* finds out more

The boundary dispute expert witness

ROBIN GIBBONS
SURVEYING & PARTY WALL EXPERT

Just before Christmas 2011, Robin Gibbons received an urgent enquiry from a farm owner in Warwickshire who needed help with a long-running, increasingly bitter and very stressful boundary dispute with a neighbour. A barrister and several other surveyors had been unable to resist a boundary claim pursued by the neighbour, which centred on a quarter-mile-long, metre-wide stretch of land. The neighbour's claim was supported by one of the foremost boundary surveyors in the country whose reputation had discouraged the previous experts engaged by the farmer. Robin, however, was undaunted, and agreed to take the case. With careful research, backed by forty years' experience of dealing with general property disputes, Robin was able to produce an Expert Witness Report to challenge the neighbour's persistent claim. The dispute ended up in court, and backed by Robin's expert evidence his client prevailed, defeating his neighbour's ownership claim. "The three most important aspects of expert witness work are preparation, preparation and preparation," says Robin, who has also just successfully been into battle against one of London's leading party wall law firms over an illegal basement development.

robin.gibbons@knightfrank.com

Residential surveys

JAMES CARTER-BROWN
HEAD OF BUILDING CONSULTANCY

If you are thinking of purchasing a house of any value a basic House Buyers Survey is not going to cut the mustard. In new or redeveloped properties there are many issues that lie beneath the shiny exterior surfaces, says James Carter-Brown, who has just prepared a report for a five-floor mews house with a double basement on London's prestigious Cadogan Lane. There are a lot of things to check including the appropriateness of any warranties, particularly relating to basement works, and ensuring the sales contract is worded to offer appropriate legal recourse if needed. But James makes it clear that even when he does uncover issues, his role is not to prevent people from buying a house, it's about finding solutions that work for both vendor and purchaser. A good example of this involved a Georgian property near Hungerford in Berkshire. Inspecting the basement, James discovered that a number of steel beams had been used to resolve an earlier issue with the original timbers. Unfortunately some deteriorating and load-bearing beams had not been replaced, with the potential for structural failure. On the same day a structural engineer (arranged by James and his team) provided a second opinion verifying James' diagnosis and quoted for the remedial works. This was then factored into the purchase price and agreed with the vendor, who was relieved the sale had not been derailed and was delighted with the high level of service provided by James.

james.carter-brown@knightfrank.com

Estate building maintenance, refurbishment and legislative advice

OWEN MARSDEN
BUILDING SURVEYOR

Residential and commercial buildings are one of an estate's most valuable assets, either in terms of capital value or income generation. However, improvements, maintenance, meeting new building regulations and energy efficiency standards, especially for residential lettings, can be expensive and the legislation sometimes confusing. This means buildings are often not utilised to their full potential. Recently as part of a strategic review of the buildings on a client's large estate in Oxfordshire, we enabled them to increase their rent roll by upgrading former staff housing to a good tenantable standard for private letting. This included refurbishing and improving the buildings with new windows and insulated roofs. As part of this work we advised the client on the recent legislative energy efficiency changes that affect all domestic and non-domestic properties. From 2018 non-exempt properties with EPC ratings of F and G legally cannot be let to new tenants and from 2020 (2023 for commercial buildings) even renting to existing tenants will become illegal. In 2020 the government is proposing to review the legislation meaning it could be tightened further.

owen.marsden@knightfrank.com

Specialist construction techniques

DANIEL MAULL
BUILDING SURVEYOR

Thatching is undoubtedly the oldest roofing technique still in use and arguably the most attractive. The organic forms created by thatch create buildings of immense interest and intrigue that have become an integral part of the UK's architectural heritage. However, purchasing and owning a thatched property can bring with it a number of pitfalls if professional advice is not obtained. We are currently working with a client to reinstate a thatched property that was relatively recently re-thatched, but the architectural detailing was not to the satisfaction of the homeowner and the thatch was infested with grain weevils. We have helped the owner to eradicate the weevils and created the desired architectural features. Our in-depth knowledge of thatching and other related technical standards means we are well placed to inspect thatched roofs for acquisition or maintenance purposes, comment on technical matters such as fire separation, undertake architectural design for alterations and seek planning and/or listed building consent.

daniel.maull@knightfrank.com

Contacts

Key contacts

Knight Frank can advise on all aspects of rural property ownership. Its principal service lines and the relevant contacts are listed here. Further details are available on our website at **KnightFrank.co.uk/rural**

James Del Mar
Head of Rural Consultancy
+44 1488 688507
james.del.mar@knightfrank.com

James advises the owners and trustees of many of the UK's leading estates. He specialises in long-term strategic planning and is also an expert on compulsory purchase and compensation legislation.

Rural consultancy

We help a wide range of clients with all aspects of rural property management. Some of our services include:

- Long-term strategic estate planning
- Day-to-day estate management
- Country house management
- Energy and Renewables
- Compulsory purchase and compensation
- Mapping and GIS solutions
- Marine property and management
- Charity property endowment advice

Head of Rural Consultancy
James Del Mar
+44 1488 688507
james.del.mar@knightfrank.com

Rural Consultancy Hungerford
Percy Lawson
+44 1488 688513
percy.lawson@knightfrank.com

Rural Consultancy Bishop's Stortford
Alastair Paul
+44 1279 213350
alastair.paul@knightfrank.com

Rural Consultancy Cotswolds
Paddy Hoare
+44 1608 737057
paddy.hoare@knightfrank.com

Rural Consultancy Bristol
Edward Dixon
+44 1179 452633
edward.dixon@knightfrank.com

Estate Management & Energy
Christopher Smith
+44 1179 452630
christopher.smith@knightfrank.com

Country House Consultancy
Angus Harley
+44 1488 688511
angus.harley@knightfrank.com

Marine Property Bristol
Michael Bapty
+44 1179 452635
michael.bapty@knightfrank.com

Marine Property Solent
Stephen Butterfield
+44 1489 667842
stephen.butterfield@knightfrank.com

Mapping
Michael McCullough
+44 1488 688508
michael.mccullough@knightfrank.com

Clive Hopkins
Head of Farms & Estates
+44 20 7861 1064
clive.hopkins@knightfrank.com

Clive has been involved with a significant proportion of the UK and Ireland's most important farm and estate sales of the past two decades, either publicly or discretely off market.

Property sales and acquisitions

We help our clients to sell or acquire all types of rural property, from investment farmland to sporting estates. Some of the reasons our clients use us include:

- **Global coverage** – Knight Frank's unique international network and database of ultra-wealthy potential buyers gives our clients' properties exposure to the widest possible audience
- **Local knowledge** – Our network of offices and experts around the UK and Ireland gives us first-hand insight into the nuances of regional farmland trends and values
- **Market intelligence** – Our rural research team produces market-leading intelligence on land values and insight into the issues affecting rural property ownership

Estate Sales
Clive Hopkins
+44 20 7861 1064
clive.hopkins@knightfrank.com

Will Matthews
+44 20 7861 1440
will.matthews@knightfrank.com

George Bramley
+44 20 7861 1069
george.bramley@knightfrank.com

Ran Morgan – Scotland
+44 131 222 9600
ran.morgan@knightfrank.com

Farm Sales
James Prewett – England
+44 844 225 9495
james.prewett@knightfrank.com

Tom Stewart-Moore – Scotland
+44 131 222 9608
tom.stewart-moore@knightfrank.com

Country house/equestrian sales
Rupert Sweeting
+44 20 7861 1078
rupert.sweeting@knightfrank.com

Agricultural Investments
Tom Raynham
+44 20 7861 1578
tom.raynham@knightfrank.com

Estate Buying
Mark Lawson
+44 1344 206070
mark.lawson@thebuyingsolution.co.uk

James Carter-Brown
Head of Residential Building Consultancy
+44 1488 688523
james.carter-brown@knightfrank.com

James has overseen multi-million pound renovations of some of the country's most desirable rural and urban residential properties. He focuses on partner-led solutions to control costs while maintaining the highest standards.

Building consultancy

Whether your property is a country house or a London mansion our team can advise on all building consultancy issues. Some of our services include:

- Project management
- Renovations and improvements
- Listed buildings advice
- Building and party wall surveys
- Design and architecture
- Insurance valuations
- Expert witness

Project Management
James Carter-Brown
+44 1488 688523
james.carter-brown@knightfrank.com

Party wall and expert witness
Daniel Maull
+44 1865 790077
daniel.maull@knightfrank.com

Building Surveyors
Owen Marsden
+44 1865 264864
owen.marsden@knightfrank.com

Christopher Leach
+44 1488 688538
christopher.leach@knightfrank.com

Tom Barrow
Head of Country Valuations
+44 20 7861 1438
tom.barrow@knightfrank.com

Tom is one of the UK's most experienced valuers of estates, farms, land, rural businesses and country houses. He also provides consultancy and expert-witness advice for valuation disputes and legal issues.

Valuation advice

We can provide RICS-approved valuations on all types of rural property across the UK for the following purposes:

- Sale or purchase
- Bank lending
- Matrimonial issues
- Tax issues such as IHT, CGT and ATED
- Compulsory purchase and compensation
- Company accounts

England & Wales
Tom Barrow
+44 20 7861 1438
tom.barrow@knightfrank.com

South East & East Anglia
George Jewell
+44 1865 264860
george.jewell@knightfrank.com

South West & Midlands
Hannah Pike
+44 1285 886690
hannah.pike@knightfrank.com

Scotland
Tom Stewart-Moore
+44 131 222 9608
tom.stewart-moore@knightfrank.com