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RURAL BULLETIN

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Welcome to this latest issue of the Knight Frank Rural Bulletin

Few announcements from the Chancellor of the Exchequer can have been as keenly awaited as George Osborne's comprehensive spending review on 20 October. Half a million job losses in the public sector and £83bn of spending cuts attest to how viciously Mr Osborne was forced to wield his knife. In our special report on page 3 we find, amazingly, that it wasn't all bad news for rural landowners and farmers. Elsewhere in the bulletin, we cover topics as diverse as glamorous German heiresses and sewage discharge as we explore the current range of eclectic opportunities and threats that may affect you or your clients.

I hope you enjoy reading the articles in this bulletin and find them both informative and useful. If Knight Frank can be of assistance in any way, you can find contacts for all our rural service lines on the final page. Further information along with the latest rural property news can be found online at www.knightfrank.co.uk/rural and you can follow us on Twitter at www.twitter.com/kfruralproperty

Headlines

- **Farmland values flatten, according to Knight Frank research**
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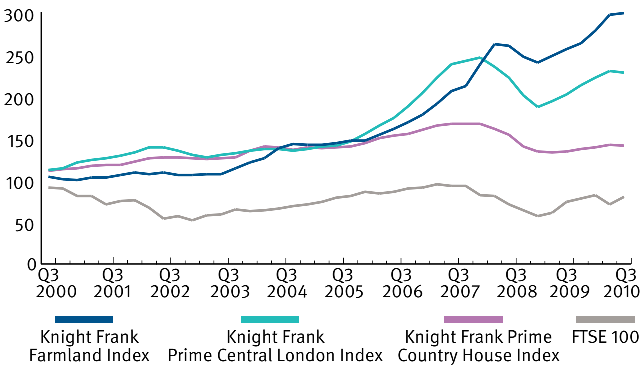
Farmland values flatten out as austerity starts to bite

The average value of English farmland increased only fractionally in the third quarter of 2010 to £5,816/acre, according to the Knight Frank Farmland Index.

This slowdown brings to an end the bull run that saw prices rise by 24% between the beginning of 2009 and the middle of this year.

Farmland performance versus other asset classes

Index (Q4 1999=100)



Source: Knight Frank Residential Research

Even though agricultural commodity values are currently performing extremely strongly, this slowdown is hardly surprising. No sector of the economy is likely to escape the impact of the coalition government's recent spending review, and the UK's economic recovery is still uncertain. Potential buyers of farmland remain keen, but are cautious about committing to a purchase.

The fact that farmland prices still remain at record highs and continue to outperform many other asset classes shows how resilient the market is. We believe that the flattening seen in the past three months is a slowdown rather than the beginning of a significant decline.

Values are likely to start picking up again after spring 2011 when farmers actually begin to see the impact of higher cereal prices on the bottom line.

There is still a shortage of land for sale, with fewer acres being put up for sale in England so far this year than in the same period in 2009. Good-sized blocks of easily-farmed arable land are in particularly short supply. A number of pension funds and investors are actively looking for this kind of farmland and good farms coming to the market will still attract a lot of interest, despite the prevailing economic uncertainty.

Farmers, however, remain the most active purchasers, accounting for 52% of acquisitions, followed by 'lifestyle' buyers (27%) and then investors (11%).

For the latest information on farmland values please contact andrew.shirley@knightfrank.com
If you are thinking of selling your farm or farmland please contact tom.raynham@knightfrank.com

Cereal prices remain high, but volatile

Wheat prices have been yo-yoing madly since the middle of the year. Although prices changes of up to £10/t in a week make it difficult to know when to sell, arable farmers won't be too upset as values are significantly higher than last season. At the end of the third quarter, feed wheat was worth £144/t ex-farm, 44% up on the year. Prices topped £155/t at one point. On the Futures market, £136/t is available for harvest 2011.

The market has become evermore volatile with cereal production estimates in key global grain producing areas, such as Australia, the US and Russia, being continually revised downwards due to bad weather.

According to HSBC Bank chief economist Mark Berrisford-Smith, prices will eventually fall back as the panic recedes. He says global wheat stocks are actually higher than they were during the last market surge. "If the shortage of stocks in 2007-08 wasn't sufficient to sustain prices at £150/t, then there is no reason for today's more benign supply/demand position to produce such an outcome."

This will be little comfort for livestock and dairy producers who have seen their margins crushed by a combination of rising feed costs and stagnant prices. Fertiliser costs have also jumped sharply on the back of global demand, although fuel costs have thankfully not yet followed suit, which is what happened in 2008 (see graph). A proposal that could see badger culling start under licence next year in England will be of some consolation to those stock farmers affected by Bovine TB. They will, however, be expected to bear the cost of trapping and vaccinating.

All farmers will see their single farm payments, which are calculated in euros, fall by about 5% this year following an increase in the value of sterling. UK subsidy payments are recalculated each year based on the exchange rate on the last day of September.

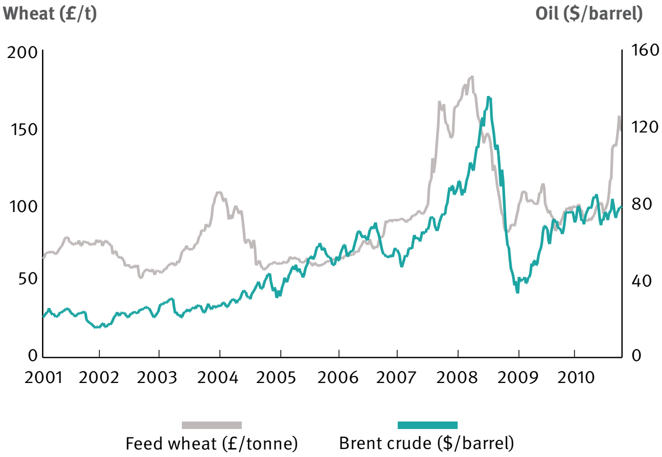
The many farming businesses that rely on the SFP to remain viable will be especially concerned by proposals to scrap market support for farmers. The plan was one of three options in a leaked Brussels document on reform of the Common Agricultural Policy after 2013. The other two options were maintaining the status quo and a more targeted and greener CAP (the favoured approach).

Agricultural price changes 2009-2010

Commodity prices	Sep 2010	Jun 2010	Sep 2009	Quarterly change (%)	Annual change (%)
Feed wheat (£/t ex-farm)	144	97	91	48%	58%
Oilseed Rape (£/t ex-farm)	304	245	218	24%	39%
Cattle (R4L steers p/kg dw)	274	272	285	1%	-4%
Sheep (R3L lambs p/kg dw)	360	369	323	-2%	11%
Pigs (DAPP p/kg dw GB av)	140	147	150	-5%	-7%
Milk (UK p/litre)*	24.68	23.85	24.05	3%	3%
Skimmed milk powder (£/t)	1,950	2,000	1,550	-3%	26%
Input prices					
Red Diesel (p/litre)	50	53	43	-6%	16%
Oil ($/barrel OPEC index)	75	73	67	3%	12%
Fertiliser (£/t AN 34.5%)	226	208	182	9%	24%
Soyameal feed (Argentine £/t)	279	259	n/a	8%	n/a
Economic indicators					
Interest rates (B of E base %)	0.5	0.5	0.5	0%	0%
Inflation (CPI)	3.0	3.2	1.1	-6%	173%
£:€ rate	1.16	1.22	1.1	-5%	5%
£:$ rate	1.58	1.50	1.6	5%	-1%

*August

Wheat prices v oil



Sources: HGCA, Farmers Weekly, Dairy Co

What the comprehensive spending review means for landowners

Described as one of the most radical rounds of spending cuts ever performed by a UK government, the 20 October comprehensive spending review will undoubtedly affect us all in one way or another. Some of the impacts may be unexpected – nobody can accurately predict the affect of almost 500,000 public sector job losses on an economy still struggling to recover from the credit crunch – and all of George Osborne's proposals must still be approved by parliament. This will undoubtedly lead to political horse trading and compromise with some Liberal Democrats already openly questioning the extent of cuts to welfare. The following is a round-up of the main issues of most relevance to rural landowners and farmers.

Renewable Energy

Even in difficult times, climate change is one of the issues that no UK government, especially the current administration, which says it wants to be the greenest ever, can be seen to be ignoring. As a result, The Department of Energy and Climate Change saw relatively modest annual budget cuts of 6.5% for the next four years, with a 41% increase in capital spending. This was good news for rural areas, which provide much of the space and raw materials needed for the generation of renewable energy.

A number of our clients were particularly worried that the solar photovoltaic element of the feed-in tariff renewable electricity scheme could be cut to save money. The fact that feed-in tariff rates will not now be reviewed until 2013 should provide many of them with the confidence to invest now and lock into index-linked payment rates guaranteed for 25 years.

The commitment to introduce a renewable heat incentive in 2011 with £860m of funding is also fantastic news for those living in the countryside. Eligible schemes will receive a payment for the heat they produce using renewable sources, even if they use it themselves. This will make it commercially viable for many property owners to invest in the expensive technology required. This could range from large biomass boilers fed by an estate's waste wood to ground-source heat pumps suitable for smaller properties.

For more details of how renewable energy could benefit you please contact Oliver Routledge of our Renewable Energy department.

DEFRA cuts

The Department for Food and Rural Affairs saw an axe taken to its budget, which will be cut by 29% or £700m over the next four years. Farmers, however, are not panicking yet with organisations like the National Farmers Union hoping most of the savings will come from a welcome reduction in bureaucracy and back-office savings at DEFRA. Between 5,000 and 8,000 DEFRA job cuts are predicted and a taskforce on reducing red tape is due to report early next year.

Only 39 of the 92 farming-related quangos will be retained and many of those set to be scrapped will not be missed. Some of the survivors such as Natural England and the Environment Agency will be radically streamlined and their remit narrowed. Agri-environment schemes seem to have escaped the cull with a commitment to increase funding for the Higher Level Scheme (HLS) by around 80%.

The much-maligned Rural Payments Agency will cut costs by doubling the number of online applications, although it concedes poor broadband access in many rural areas will be an issue.

One area of concern is funding for agricultural research and development, which has been gradually eroded over the years, but is now even more vital as the industry grapples with the implications of food security, climate change and a rising global population. DEFRA, however, says it will continue to invest in the Animal Health Institute at Pirbright and there were no cuts to the national science budget in the spending review.

There will be 15% efficiency savings or a cut of £61m, depending how you like to look at it, in the procurement strategy for coastal defence. It is estimated that by March 2015, better levels of protection can be expected for 145,000 households in England. Whether this means less of a focus on protecting farmland remains to be seen.

Other spending review issues

HS2 – The government's commitment to the creation of a high-speed rail link running north from London was confirmed. Go to www.knightfrank.co.uk/hs2 for more details.

Rural broadband – £530m will be spent on improving coverage over the next four years, with some of the money coming from the BBC licence fee. Pilot schemes will be launched in Cumbria, Herefordshire, North Yorkshire and the Scottish Highlands and Islands.

Retirement age for workers – This will increase to 66 by 2020.

Affordable housing – 150,000 homes will be built over the next four years, a decline on previous years.

Local authorities – Council budgets will be cut by 28% over the next four years. This seems certain to affect the delivery of local services in rural areas.

Coastal path on track despite government cuts

The previous government's dream of creating an unbroken footpath around the English coast seems to be on track, much to the chagrin of landowning bodies.

It had been hoped by some that the multi-million pound plan would fall victim to the coalition's austerity cuts, but Natural England announced earlier this month that it had started consulting on the first leg of the path. This will run along the Lulworth to Portland stretch of the Dorset coast and will open in time for the 2012 Olympic sailing events at Weymouth.

The three-month public consultation will close on 10 January 2011 with proposals then submitted to the Secretary of State for approval. Work on the delivery of further stretches of the path in Cumbria, Kent, Norfolk, Somerset and County Durham will also commence next year.

The Country Land and Business Association said the money would be better spent on improving existing paths and facilities.

Affected landowners can appeal the route of the path. Anybody affected should contact Michael Bapty of Knight Frank's Marine department.

New pension liabilities on the horizon for landowners

Rural property owners will have to automatically enrol all their eligible staff into a pension scheme from October 2012. Those covered are employees aged between 22 and pensionable age earning from £5,035 to £33,540. The minimum contribution is 8%, of which an employer must meet at least 3%. Staff can opt out, but they must be re-enrolled every three years.

Please contact Percy Lawson for advice on any estate management issues.

Balfour victory relief for mixed estate owners

Scotland's Upper Tax Tribunal has rejected an appeal by HM Revenue & Customs against a ruling from a lower tribunal that overturned its decision to deny Business Property Relief (BPR) on the estate of the late Lord Balfour. HMRC said the estate did not qualify for full BPR because much of its activity revolved around the letting of property to third parties. The Upper Tax Tribunal disagreed and said this was ancillary to the estate's main activity, which was farming. The ruling will be a relief to the owners of mixed estates.

For more information on the implications of the Balfour case please contact Tom Barrow, Knight Frank's head of rural valuations.

New sewage regs kicking up a stink

Domestic property owners with old sewage systems, especially those thinking of selling, need to be mindful of changes to the regulations concerning the discharge from septic tanks or sewage treatment plants.

The new rules, which were introduced on 6 April this year, require all existing systems that discharge to the ground or a watercourse to have either a "Permit to Discharge" or an exemption from such a permit. All systems have to be registered with the Environment Agency by 1 January 2012.

Property owners with systems installed after the early 1990s do not generally need to do anything as their existing mandatory "Consent to Discharge" will be switched automatically by the Environment Agency to either a "Permit to Discharge" or an exemption. The situation becomes more complicated for systems installed before then and conveyancing solicitors representing house purchasers are becoming increasingly wary of properties with older sewage systems.

Applying for an exemption, however, is not difficult and a self-certified application can be submitted online. Anybody concerned their sewage system will not meet the necessary standards for self certification may be advised to repair it and then apply for an exemption.
For further details and advice please contact Robin Gibbons of Knight Frank's Building Surveying department.

Right-to-build threshold reduced

Rural communities that wish to take advantage of the government's proposed Community Right to Build (CRB) will now need backing from 75% of residents, not the 90% that was originally mooted.

CRB will be a key part of the Decentralisation and Localism Bill, which is due to be published in November and will include a comprehensive reform of the entire planning system. Under the scheme, communities that hold a successful referendum will automatically be granted planning permission to expand in size by up to 10%. Rural communities can be fractious at the best of times and it remains to be seen whether getting three quarters of a village to agree to any sort of development is a realistic prospect.

Communities minister Andrew Stunell is also calling on local planning authorities to look favourably on the conversion of redundant farm buildings into affordable housing. Under the "Homes on the Farm" initiative, Mr Stunell clearly expects councils to make exceptions to local development plans in order to allow such conversions.

Please contact our rural architectural specialist Steve Egford if you have buildings that might qualify for conversion.

Country house market starts to fall back as austerity bites

The average value of English prime country houses fell back by almost 1% in the third quarter of the year, according to the Knight Frank Prime Country House Index. Prices, however, are still over 6% higher than they were 12 months ago.

After such strong growth, this slight weakening did not come as a surprise. The economic recovery is still stuttering and the comprehensive spending review earlier this month confirmed that everybody will be expected to share the pain of rebalancing the country's books.

The prime country house market around London tends to be slightly less affected by domestic issues, such as government spending cuts, because more purchasers come from overseas. Across Knight Frank's offices in the Home Counties average values fell by just 0.3% in Q3 and are up almost 8.5% on this time last year. In south-west and central England prices fell by 1.8% and 1.5%, respectively.

Purchasers at the top-end of the market currently seem the most price sensitive. According to our index, the average value of a manor house fell by 1.3% in Q3, while cottages and farmhouses dropped by 0.8% and 0.6%, respectively.

Prime Country Property – price change by region Q3 2010

Region	Three-month % change	Six-month % change	12-month % change
Home Counties	-0.3	2.1	8.4
South West	-1.8	1.5	6.7
Central England	-1.5	1.3	5.4
North	-1.5	-0.9	3.2

Source: Knight Frank Residential Research

Landowners may want to consider a "pre-nup" after UK supreme court ruling

It was good news for lawyers, but perhaps a blow for the more romantically minded among us, when the UK's Supreme Court ruled in favour of a German heiress who was contesting a case bought by her former, and considerably less wealthy, French husband.

Nicolas Granatino had claimed that the pre-nuptial agreement he had signed prior to his marriage to Katrin Radmacher, who is worth an estimated £100m, was unfair. The High Court initially agreed with him, but this was overturned by the Appeal Court, which cut Mr Granatino's settlement from £5m to £1m. This decision was upheld on 20 October by the Supreme Court.

Although the decision does not make pre-nups absolutely binding under English law, it does give judges the ability to give weight to them when settling divorce cases if they are considered to be fair. Landowners may now want to consider taking legal advice on whether a pre-nup should form part of their estate-planning strategy.

Knight Frank has an expert team that can advise on safeguarding the future of your estate. **Please contact Sandy Douglas, head of strategic estate planning, for details on how we can help.**

Farmer wins structural damage claim against the RAF

A Somerset landowner has just been awarded £120,000 after a court ruled that low-flying fighter jets were to blame for structural damage to his house in 2008.

Rodney O'Brien of Kingsdon said RAF Hawk jets participating in an air display at nearby Yeovilton came so close to his Grade II listed house that even plasterwork in the cellar was affected. Mr O'Brien said his chimney had been completely destroyed and extensive structural remedial support work had been required in the cellar.

Although the Ministry of Defence conceded the jets had caused some damage, they estimated it to be worth just £3,000. Judge Jonathan Foster, however, said Mr O'Brien's expert evidence was more convincing than the MOD's. Some lawyers are now predicting a rash of claims against the RAF.

The case highlights the importance of using strong expert evidence in such cases, particularly where valuable and often unique heritage assets, such as listed buildings, are involved. Knight Frank's building surveying team has in-depth knowledge of such properties and is well placed to offer advice and act as an expert witness when required. **For more information please contact Robin Gibbons.**

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READY TO HELP

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


Michael Bapty


Tom Barrow


James Del Mar


Sandy Douglas


Robert Fanshawe


Angus Harley


Clive Hopkins


Michael McCullough


Tom Raynham


Andrew Shirley


Christopher Smith


Andrew Waller

Knight Frank's clients include traditional estates, institutional landowners, country house owners, farmers, charities, local government, energy and utility companies, rural businesses, private investors and funds.

Agricultural Valuations
Tom Barrow
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Country House Consultancy
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