THE

RURAL REPORT

A UNIQUE GUIDE TO THE ISSUES THAT MATTER TO LANDOWNERS

Knight Frank

AUTUMN 2011

IN VINO VERITAS
Creating a Devon vineyard

ADDED VALUE
How to cut your tax bills

RENEWABLE ENERGY
Your questions answered

THE FARMLAND MARKET
Where now for land values?

WELCOME TO THE LATEST ISSUE OF THE RURAL REPORT, KNIGHT FRANK'S TWICE-YEARLY FOCUS ON THE ISSUES THAT MATTER TO RURAL PROPERTY OWNERS AND THEIR ADVISORS

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THE RURAL REPORT

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One of the most exciting things about working with rural landowners in the UK is the sheer variety of businesses that they are involved with. Over the years, my colleagues and I have been lucky enough to work with some of the country's most forward-thinking and innovative estates.

Our case study on page 06 highlights the opportunities available on even a relatively small estate. Not content with restoring an ancient cider orchard, our clients have created their own vineyard, ensuring that their period of ownership will leave a legacy for future generations. Who knows, with such enthusiastic advocates and the prospect of rising temperatures, it may not be long before the English wine industry enjoys the same reputation as our neighbours across the Channel.

As well as helping a new generation of estate owners achieve their aspirations, Knight Frank works with some of the oldest. On page 12, Chris Bourchier of The Crown Estate, probably the UK's largest commercially run rural property portfolio, offers a fascinating insight into how the estate is coping with the challenges of the 21st century.

One area of new enterprise where The Crown Estate is leading the way is renewable energy. Since the introduction of the Feed-in Tariff system last year, a whole range of energy-saving, environmentally friendly and potentially profitable technologies has become viable for farms and estates. Our renewable energy experts answer some of the questions they are most asked on page 08.

Property valuations and mapping may not sound as glamorous as winemaking and harnessing renewable energy, but the articles on pages 10 and 14 show how important they can be. Anybody thinking of selling a house with over 1.2 acres of grounds and gardens should definitely consider taking some expert advice.

I do hope you enjoy reading The Rural Report; please get in touch if we can help in any way. Knight Frank's rural property team offers advice at all levels, from long-term strategic estate management to overseeing day-to-day operations. You can find all our contacts at the back of the report.

We also publish the Rural Bulletin, a free quarterly email update that includes details of commodity and input price trends, as well as any important legislative, tax or legal changes that may affect rural property owners. If you would like to receive a copy, please email andrew.shirley@knightfrank.com

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Knight Frank Rural Consultancy

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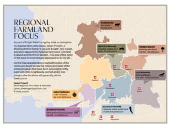

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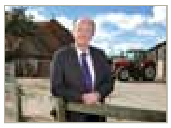

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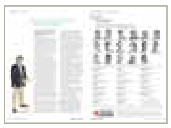

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WHERE NOW FOR FARMLAND VALUES?

Farmland values fell back slightly in the third quarter of the year. Knight Frank's experts explain why and predict where the market may be heading over the next few years

Words: Andrew Shirley

The average value of English farmland fell by 1% in the third quarter of the year. This followed a period of strong growth that saw prices hit a new record high.

However, according to the Knight Frank Farmland Index, bare agricultural land is still worth over £6,000/acre – 5% higher than 12 months ago and almost double the prices being achieved five years ago.

In terms of capital appreciation, farmland has outperformed many other asset classes over both the short and long term. The FTSE 100 index of leading UK companies, for example, has lost over 10% of its value in the past three months alone and an investment a decade ago will have grown by a miserly 6% before taking into account inflation.

So why have farmland values started to weaken slightly and is this part of a longer-term trend? Clive Hopkins, Head of Knight Frank's Farms and Estates team, thinks not. "Against the backdrop of growing economic uncertainty in the UK and around the world, I think there was a bit of a perception amongst buyers and investors that the market could be overheating slightly.

"People have decided to take a step back, but that doesn't mean they are not interested in the right product – they are just being more selective and bidding more cautiously. A number of high-net-worth clients looking to invest have told me that they are waiting to see how the economic situation pans out over the next six months or so."

Tom Raynham, Head of National Farm Sales, says buyers are taking a much tougher stance when negotiating deals. "There is a perception that anybody who is selling must have a good reason for doing so. Potential purchasers don't feel they need to rush into a deal and are prepared to wait for the right price."

Banks are also becoming more cautious, says James Prewett, who heads up farm sales in central and western England. "They still see farmland as a safe asset to lend against, but given their rising concerns over property markets in general, they are a bit twitchy when prices start to creep above £7,000/acre."

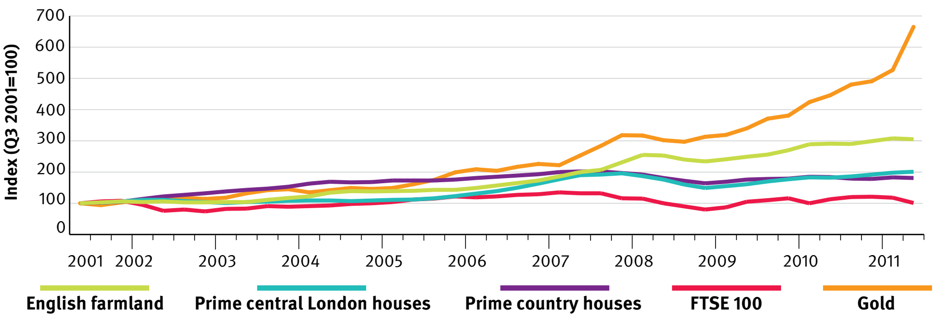
Volatility in the commodity markets and worries about the 2011 harvest are also being reflected in the farmland market, adds James. "Cereal prices hit a record high earlier in the year, but they have come back quite sharply since then and arable farmers who might be considering buying more land are waiting to see what happens now."

All agree that the market is becoming increasingly polarised with land that attracts competitive bidding due to its location or quality still achieving very strong values. "In the Cotswolds we sold some land this year for around £11,000/acre, but something in Warwickshire that didn't generate quite such excitement went for £6,750."

Prices are likely to remain flat or weaken slightly in the final quarter of the year, adds Clive, but he believes they will rebound in the first half of 2012. "The general direction of the land market is still upwards as investors look to tangible assets supported by strong fundamentals. I think the pattern of price rises followed by periods of flatter growth will continue for the next few years.

If you are thinking of selling your land, farm or estate and would like to be in a position to take advantage of stronger selling conditions in the spring, please contact **Clive, Tom** or **James** now for a free market appraisal. You can find their contact details on page 15.

Farmland performance compared with other assets



	3 months	12 months	5 years	10 years
Farmland	-1%	5%	94%	204%
Prime London houses	2%	11%	45%	101%
Prime country houses	-1%	-2%	-2%	81%
FTSE 100	-10%	-6%	-3%	6%
Gold	22%	44%	214%	543%

Source: Knight Frank Residential Research

Olympic fever

Equestrian competitors in the 2012 London Olympics have been turning to Knight Frank's equine property experts for help. The team has already acted for the American Equestrian Federation and has closed a number of Olympics-related deals on properties worth over £5m.

Please contact **Rupert Sweeting** at rupert.sweeting@knightfrank.com or on 020 7861 1078 if you need advice on any equine property matters.

PROPERTY FOCUS

Hoddington House Hampshire
Guide price: **£20m**

A magnificent Grade II* Listed mansion sitting in beautiful countryside. Twelve-bedroom main house, lodge, secondary house, 10 cottages, farm buildings, arable, pasture, extensive woodland and excellent shoot. In all 809 acres.

Pallingham Manor West Sussex
Guide price: **£8m**

A listed farmhouse, tennis court, swimming pool, secondary farmhouse, four cottages, staff accommodation, stables, farm buildings, gallops. Productive arable land, woods, water meadows and river. In all 446 acres.

The Edwinsford Estate Carmarthenshire
Sold: **for close to the £2.5m guide**

A superb 372-acre sporting estate with ideal terrain for a magnificent high-bird pheasant shoot. Excellent rough shooting for duck, woodcock and snipe over 336 acres of adjoining sporting rights.

Eversfield Manor Estate Devon
Guide price: **£6.3m**

A diverse estate on the edge of Dartmoor. Lot 1: eight-bedroom house, cottage, woods and paddocks. Lot 2: organic 635-acre grass farm with established shoot and fishing. Eight-bedroom guest lodge and three cottages.

Farmland Gloucestershire
Sold privately: **for around £10,000/acre**

A 600-acre arable and amenity farm in rolling Cotswold countryside with two cottages, farm buildings and a good shoot.

Kencot Hill Farm Oxfordshire
Guide price: **£1.2m**

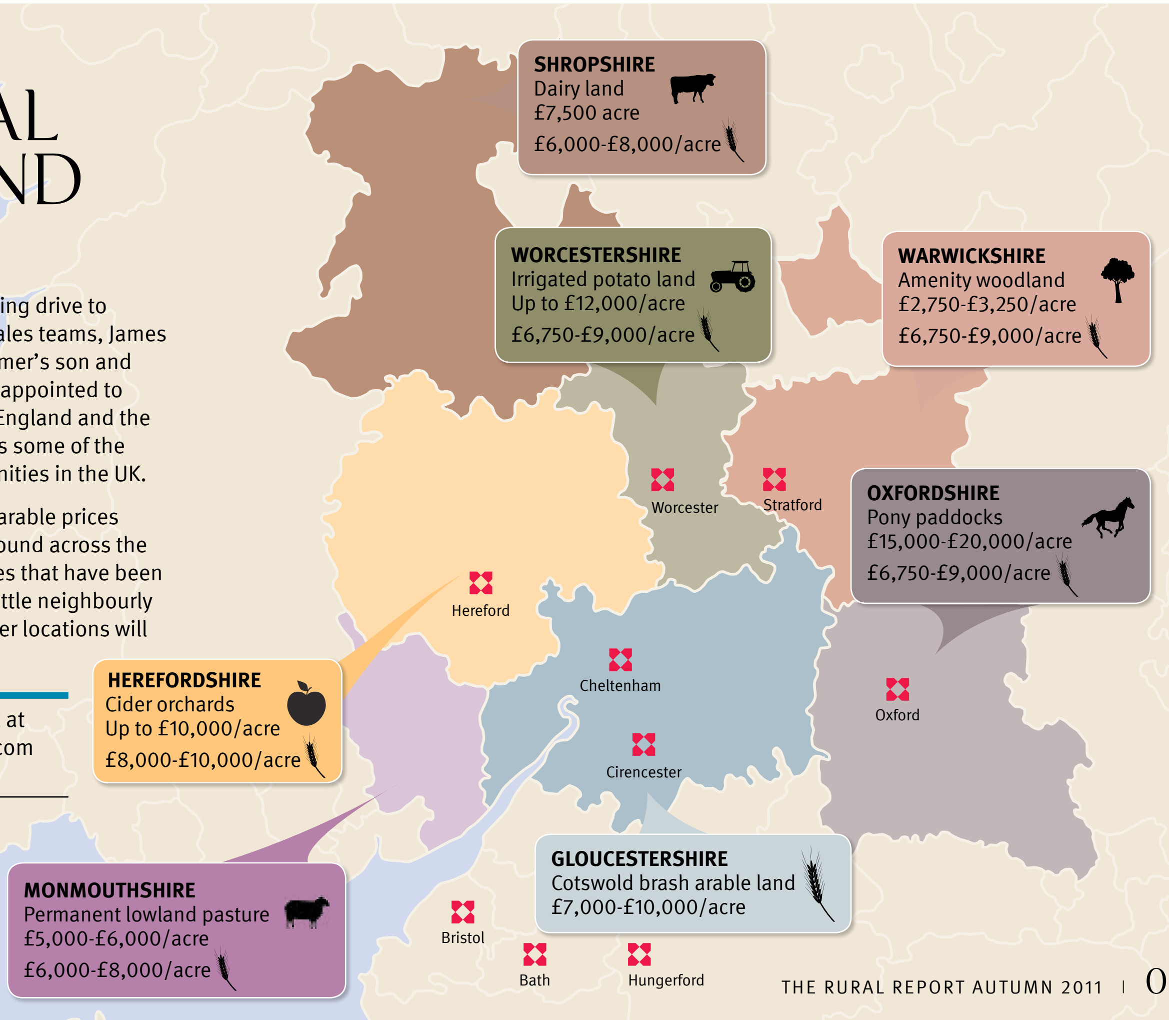
A 153-acre block of arable reversion pastureland with planning consent for a 5MW solar farm that could power 1,200 homes.

REGIONAL FARMLAND FOCUS

As part of Knight Frank's ongoing drive to strengthen its regional farm sales teams, James Prewett, a Monmouthshire farmer's son and Knight Frank valuer, has been appointed to head up farm sales in central England and the Welsh Borders. This area offers some of the most diverse farming opportunities in the UK.

On our map James highlights arable prices and the variety of land types found across the region plus the premium values that have been achieved recently. Land with little neighbourly interest and in less sought-after locations will generally attract lower prices.

Please contact **James Prewett** at james.prewett@knightfrank.com or on 01285 659 771.



A PERFECT PARTNERSHIP

When Jane Moon first fell in love with the Sandridge Barton Estate it was already a wonderful property. Since then, with Knight Frank's help, she has made it even better. The Rural Report pays a visit

Words: Andrew Shirley
Image: Peter Dean

THE SANDRIDGE BARTON ESTATE

Total acreage	405 acres
Let farmland	185 acres
In-hand pasture/arable	149 acres
Woodland	57 acres
Vineyard	10 acres
Cider orchard	4 acres

Picture perfect: Jane Moon, the owner of Sandridge Barton, and Knight Frank's Edward Dixon discuss this year's grape crop

As Jane Moon shows me around the 405-acre Sandridge Barton Estate, along with Knight Frank's Edward Dixon, it is easy to see why it was love at first sight. Nestling in a picturesque hollow, the main house sits picture perfect, framed by rows of meticulously tended vines, mature woodlands, meadows and a stunning view over the River Dart.

Jane and husband Andrew were looking for a small country estate about 10 years ago when she stumbled across an advert for Sandridge Barton in a yachting magazine. "I knew immediately then that it was the property for us," she recalls. "We both love sailing and the location near Dartmouth was perfect."

Apart from the lifestyle aspect, being able to invest in agricultural land was part of the attraction, adds Jane. "Andrew had worked on farms when he was younger and was keen to get involved again. We also both liked the idea of investing in something tangible that would hopefully increase in value, but would also be something that we could really enjoy owning and where we could try out new ideas."

The couple, however, were disappointed to discover that Sandridge Barton's then owner had already promised to sell it to somebody else. Fortuitously, the Moons were handed a second chance when the purchaser decided to put it back on the market after just a few years. And they weren't going to miss out again, says Jane. "There was no messing about, this time it was ours."

Once a deal was struck, Knight Frank was involved right from the start, explains Jane. "We had a strong vision of what we wanted to achieve, but always knew we were going to need help. The estate wasn't going to be our main home and we are involved with a number of other businesses that require our time."

Part of Knight Frank's appeal for the Moons was its wide range of property services, says Jane. Although the firm's Estate Management Department oversees any strategic planning needed and is responsible for the day-to-day running of the estate, it can call on a wide selection of in-house specialists when required. This has included the Building Consultancy and Architecture team, which was involved with a sensitive remodelling of the front of the estate's six-bedroom main house, as well as the total renovation of a secluded boat house that is now an award-winning two-bedroom holiday let.

"It is a very exciting estate to be involved with," says Edward, who looks after Sandridge Barton for the Moons. "Jane and Andrew have very clear objectives and are always looking at developing new opportunities, which will improve the overall environment of the estate, create new income streams or, in many cases, both."

A lot of effort has gone into improving the estate's woodland and an old cider orchard, grubbed up 50 years ago, has been replanted. But one of the most significant and noticeable changes to the estate, making it in some ways more reminiscent of the Loire Valley than Devon, has been the creation of a new vineyard on its slopes. By the time the third stage of planting is completed in 2012, Sandridge Barton will boast 25 acres of vines including Pinot Noir, Bacchus, Madelaine Angevine and Chardonnay varieties.

All the grapes are currently sold to a local wine maker, but eventually the estate could bottle its own vintages, says Jane. "English wine is really on the up and now stands on its own two feet, it's no longer seen as just a novelty. We have a really good micro climate here for growing vines."

Viticultural advice is provided by local expert Ian A'Court, but Knight Frank has project managed the scheme and looks after ongoing operations. "We provide help on a number of levels," points out Edward. "Even when clients are passionate about a particular idea, they appreciate the objective view that we can provide, it gives them confidence that what they are doing makes sense. They can then relax knowing that we will deal with any third parties or contractors needed to bring their ideas to life.

"Many of our clients are very busy people who spend long periods away from their rural estates and need a total, utterly reliable and discrete management service," Edward adds. When the Moons are not staying at Sandridge Barton themselves, for example, they rent out the main house as well as the boat house, which is always available, through a holiday lettings agency specialising in the south west (helpfulholidays.com). Knight Frank manages that relationship.

"Sandridge Barton is such a wonderful place, it will always be a joy to own and share with others," says Jane as we finish our tour. "But working with Knight Frank has meant we have been able to enjoy and appreciate it even more. Edward and everybody else involved have all shared our passion for the estate and our vision for its future."

Edward Dixon can be contacted at edward.dixon@knightfrank.com or on 01179 452 633. Edward is a member of Knight Frank's Estate Management team, which helps clients achieve the aspirations they have for their estates and rural property portfolios, whether financial, lifestyle or strategic.

RENEWABLE ENERGY – WHAT DOES IT MEAN FOR ME?

Since the launch of the ground-breaking Feed-in Tariff (FIT) last year, there has been a surge in renewable energy interest from rural landowners. Knight Frank's experts provide answers to some of the most commonly asked questions

PAYMENTS AND GRANTS

Q I know that there are various incentives for producing renewable energy, but I'm not sure who qualifies for them.

A There are incentives available to produce both electricity and heat from renewable resources. FITs, which came into force on 1 April 2010, cover the production of electricity; the main technologies being wind, hydro, solar photovoltaic (solar PV) and anaerobic digestion. The Renewable Heat Incentive (RHI) is coming into force later this year for non-domestic properties, and in October 2012 will be available for domestic properties as well. The main technologies covered by the scheme are heat pumps, solar thermal and biomass. Provided the size of these schemes does not exceed the specified thresholds, then incentives are available to anyone who develops them and most rural property owners should be able to take advantage of at least one of the opportunities.
Oliver Routledge

TAX

Q Is it true that I won't have to pay income tax on any FIT payments that I receive?

A There is no income tax payable in relation to the payments received for electricity that the scheme owner is consuming domestically. If your scheme is not producing any electricity for domestic consumption and is exporting everything to the National Grid then the appropriate tax is payable (corporation or income).
Oliver Routledge

Q Are there any other tax issues I need to think about when considering a renewables project?

A It goes without saying that you should take specialist tax advice in relation to any renewables project. One should be careful about the loss of Agricultural Property Relief (APR) if you are leasing ground out for renewable energy projects. On the plus side, if you develop a project yourself, it may well be possible to claim Business Property Relief (BPR) from Inheritance Tax (IHT) in relation to the value of that project at the date of death.
Oliver Routledge

PLANNING

Q How easy is it to get planning consent for a renewable energy scheme and do you have any tips for achieving permission more quickly?

A It very much depends on the nature and scale of the proposal, the sensitivity of the location and the amount of up-front work undertaken prior to submitting the application. We always advise that a planning and technical feasibility appraisal is undertaken in the first instance as this ascertains the most suitable locations for specific proposals. For example, we would always suggest a wind turbine is located outside an Area of Outstanding Natural Beauty and that solar panels are not installed in highly visible locations, particularly on listed buildings.

Another tip is to engage with the local planning authority as soon as possible, they may have ideas about suitable locations or even a requirement for renewable energy that could support a planning application. We also advise that some community consultation is undertaken, this could help address concerns about the proposal before an application is submitted.
Sophie Taylor

Q Will the National Planning Policy Framework (NPPF) make it any easier to gain planning permission for renewable energy projects?

A The government recently issued its draft NPPF for consultation and hopes to formally adopt the document by April 2012. Drawing on the Localism Bill and Agenda for Growth, the NPPF seeks to promote sustainable development while also ensuring planning decisions are made at a grass roots level.

The NPPF includes specific policies that should help promote renewable energy proposals. A general presumption in favour of sustainable development, where the default answer for development is 'yes', should make it harder

for Local Planning Authorities (LPAs) to refuse proposals. The NPPF also advises that LPAs should not require applicants to demonstrate the overall need for renewable energy and also recognises that even small-scale projects provide a valuable contribution. If impacts are, or can be made, acceptable, applications should be approved. These changes should provide a stronger policy justification for renewable energy proposals and thus increase the likelihood of securing planning permission.
Sophie Taylor

Q Will getting planning consent for a renewable scheme on my farmland increase its value?

A The cash flows associated with renewable energy schemes are bought and sold for considerable sums, particularly after the grant of planning consent. In most situations, the successful development of a project on an estate will provide significant additional value.
Oliver Routledge

ON-FARM SOLAR PV

Q I was considering installing a solar PV scheme on my farm, but heard that the recent cuts to the FIT mean this is no longer a viable investment. Is that true?

A This entirely depends upon the size of the scheme that you are considering. The rationale behind the recent cuts was to prevent large areas of agricultural land being developed as solar fields of up to 32 acres. Very attractive returns can still be achieved in relation to roof-mounted schemes of up to 250kW (2,000 sq m).
Benjamin Davies

Q If I put solar photovoltaic panels on an agricultural building will I have to start paying rates?

A In Scotland there is a Renewable Energy Generation Relief scheme from business rates under which the majority of roof-mounted schemes qualify for 100% relief. In England the position is unclear, but we expect that at some point local authorities will look to charge business rates on roof-top arrays. While developing any project in England and Wales, discussions should be had with your local Valuation Office as it will fix the rateable value of your scheme. Rates are currently payable at 43.3p in the pound.
Benjamin Davies

WIND

Q Is it more profitable to install a smaller scheme and claim FITs or go for something larger?

A The maximum size of a wind energy scheme that can be accredited under the FIT is 5MW, the built cost of which would be circa £7.5m. The returns from a scheme of say 4.8MW accredited for the FIT will, in all likelihood, be better than a scheme of say 5.1MW, which would only be eligible for the pricing mechanism for larger schemes, the Renewable Obligation. The returns from FITs are also more certain as the price payable for each unit of electricity is indexed to RPI. Accordingly, we would recommend that landowners concentrate on smaller schemes covered by FITs.
Christopher Smith

Q I am thinking of putting a wind farm on my land. Is it better to try and fund it myself or should I rent the land out to a specialist operator?

A This all depends on the levels of capital that you have available and your attitude to other people developing projects on your land. If you have capital available to develop a project (do also bear in mind that debt finance is available for such projects), we would recommend that you develop your own. Not only does this enable you to have control of what is going on your land, but the returns from generation are generally better than those from rental income.
Christopher Smith

COUNTRY HOUSES

Q Our house is listed, but I am interested in installing solar panels and a ground-source heat pump. What are my options?

A Alterations to listed buildings do require consent, but that does not prohibit renewable technology being installed. Approvals where needed for ground source heat pumps are usually the most straightforward as they are not visible. Solar panels have been installed to the likes of Dunster Castle, however are best sited on hidden roofs, outbuildings or on frames on the ground. Internal alterations to the property may also be necessary with any technology and may need listed-building consent. Adaptations to the fabric of the property as a result of major changes to the heating system can be more disruptive than you might expect.

Biomass (wood pellet/chip) heating can be more appropriate for older properties due to the rate of heat loss. Again this is possible to provide to listed buildings as the storage can be underground or remote. You might even have woodland to supply your own wood fuel and further improve cost savings.
David Parry-Jones

Q Can I really save money on my fuel bills by installing a renewable energy scheme and which sort of technology pays for itself the quickest?

A The choice of renewable energy scheme that you choose should be considered alongside a number of other factors in addition to payback periods. These include annual energy usage, the type and construction of the property, how you use it and the availability of fuel, for example woodchips.

Residential size installations will be eligible for FIT or RHI payments and these have been included in the table below.
George Bouwens

Typical payback periods for residential renewable energy installations

Technology	Payback period	Ideal property
Solar PV	6-9 Years	Any. South or south-west facing roof preferable.
Ground-source heat	12-14 Years	Modern, well insulated with underfloor heating.
Biomass	4-6 Years	Large (the bigger the better) and with outbuildings. Own woodland even better.

For advice specific to your property please contact any member of our Renewable Energy team.





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ADDING VALUE

The benefits of an expert valuation go far beyond simply calculating what a property is worth. The Rural Report finds out more

Words: Andrew Shirley

Ask an estate agent how much a property is worth and the answer is simple: whatever somebody will pay for it. Put the same question to a qualified valuer and the response is likely to be somewhat different.

"To a certain extent it depends on why you need the valuation, who requires it and for what purpose," explains Tom Barrow, Head of Knight Frank's Rural Valuations team. "A bank will require a valuation for secured lending to be based on a different set of parameters than somebody who just wants to work out a likely sale price."

Valuers in the UK are covered by a strict code of conduct laid down by The Royal Institution of Chartered Surveyors' Valuation Standards, (commonly known as the Red Book), which also covers the various requirements and processes for different types of valuation, points out Tom.

Where the valuation process becomes more complex is when the property being valued is made up of many different constituents, such as a large rural estate, or when the valuation must look at how much a property was worth at a given point in the past.

"Different parts of a property attract tax at different, or even nil, rates. It is therefore vital when working on a Capital Gains Tax (CGT) valuation, for example, to ensure that the value is sensibly apportioned to ensure your client pays the right amount of tax." (see case study 2)

Tax matters also often require the valuer to calculate how much a property was worth in the past, which requires a certain amount of detective work, says Tom. "What a property was being used for at a particular time, or whether there were any restrictions placed on its use, could have an impact on its value."

One of the frustrations for a valuer is that they are often called in to sort out problems that could have been avoided if a professional valuation had been carried out in the first place. This often happens when people are trying to work out taxation issues with Her Majesty's Revenue & Customs (HMRC), according to Tom.

"People are often surprised when they receive a far higher CGT or Inheritance Tax bill from the taxman than they were expecting, but in these times of austerity it is hardly surprising that the government is trying to maximise its income from taxation."

It is usually at this point that people start trying to argue their case, says Tom. But by presenting HMRC with a professionally reasoned and presented valuation at the start of the process they could save a lot of stress and inconvenience, he advises.

"HMRC employs the District Valuer to act for it and it makes sense to have a professional valuer on your side too, particularly if you are negotiating over tax liabilities that could run into tens, if not hundreds, of thousands of pounds. Agricultural Property Relief (APR) cases can be particularly complex and HMRC is looking at every case in ever more detail."

The same applies to large infrastructure projects like the proposed London-to-Birmingham high-speed rail link. Affected property owners can seek redress via various compensation schemes (see case study 1), but the government will not want to pay out more than it has to.

Valuers can also help long before an actual valuation is needed, Tom says. "By planning ahead you can ensure that your property is structured in a way that ensures you do not need to pay more tax than is necessary."

CASE STUDY 1 – HS2 COMPENSATION WIN

Trevor and Doreen Coop had their life carefully planned out. When Trevor, a freelance cameraman who has worked on hundreds of blockbusters around the world, including Harry Potter and Troy, scaled back his workload they were going to sell their much-loved home near Wendover, Bucks, and downsize. Paying the mortgage on such a large property would not be an option on their pensions. And then along came HS2.

The proposed high-speed rail link between London and Birmingham was announced just as they put their detached house on the market. "To begin with we didn't think much about it as it was just a proposal," says Trevor. "We even had somebody who fell in love with the house and was prepared to pay the full asking price of £875,000 just three days after it went on the market."

But that buyer quickly disappeared once they found out that HS2 could be running just 128 metres from the house and a large roundabout on a busy road was also going to be moved much closer. Unsurprisingly, nobody else was interested. The house was totally unsaleable.

To make matters worse, Doreen, who had already retired, was diagnosed with cancer meaning Trevor needed to spend more time caring for her. Paying the mortgage was starting to be a real struggle.

It was then that the Coops found out about the Exceptional Hardship Scheme (EHS), which was introduced to help people in similar circumstances to them. Under the terms of the scheme, the government would buy the houses of anybody who would endure undue financial hardship because they were unable to sell their properties for a reasonable price due to HS2.

Knight Frank's Rural Valuation and Consultancy team works across the UK and provides valuation advice covering all property types and circumstances.

These include sales, purchases, secured lending, matrimonial and family proceedings, probate and Inheritance Tax, Capital Gains Tax, blight and compensation claims, renewable energy and strategic estate and inheritance planning.

Our clients include private individuals, charities, institutional landowners, banks, solicitors, companies and funds. Please get in touch with one of our experts if you require assistance with any aspect of valuation or consultancy matters.

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This lifeline, however, proved to be something of a mirage until Knight Frank valuer James Prewett went into battle for the Coops. "There was so much paperwork," recalls Trevor. "It really seemed as if they were trying to put people off claiming. Initially, we were turned down because they said we weren't marketing the house vigorously enough, which was ridiculous. Our estate agent told us it got plenty of hits on their website, but once people found about HS2 they just weren't interested."

Thankfully, James managed to get the decision overturned when the application was resubmitted with additional evidence and a comprehensive valuation. Fifteen months after they first applied to the EHS, the Coops' house has now been bought by the government and they are free to belatedly get on with their lives.

"I think we would still be stuck paying a mortgage from our retirement savings without James' help," says Trevor. "The whole process was faceless and having a professional firm negotiate on our behalf meant those in charge of the scheme had to take us seriously."

Apart from the EHS there are a number of other compensation and compulsory schemes that will cover those affected by HS2. You can find out more about them and Knight Frank's specialist HS2 team at **www.knightfrank.co.uk/hs2**

Doreen and Trevor Coop outside the house that nobody wanted to buy

CASE STUDY 2 – CAPITAL GAINS TAX VICTORY

Not a lot of people know that disposals of even principal private residences can attract CGT if their grounds and gardens are over a certain size, says Knight Frank valuer George Jewell. "Generally, HMRC believes up to 1.23 acres of gardens and grounds are all that is required for the reasonable enjoyment of a dwelling. It will try and levy CGT on the value of any area above this threshold."

Large gardens are not necessarily exempt from CGT

However, it is possible to argue that a larger "permitted" area should be allowed in certain situations, and this is what George achieved for a client who, in 2008, sold his house and 50 acres of land for substantially more than he had paid for it.

Initially, the client's accountant had argued with HMRC's District Valuer (DV) that the whole 50 acres should be exempt, but this was simply unrealistic, says George. "Once I was brought in I managed to increase the acreage the DV was prepared to allow from his starting point of 1.23 acres to almost six."

George also successfully argued a residential annexe formed part of the main house, thereby exempting it from CGT. In addition, by analysing the planning history of the property, he was able to prove that an unconverted barn with planning permission for conversion was subject to an Agricultural Occupancy Condition, thus reducing its value and the tax liability.

"In total, by looking carefully at all the constituent parts of the property and negotiating with the DV to the client's advantage, I managed to remove an additional £965,000 from CGT," says George. "And because I was only involved at the latter stages of the process, it wasn't even possible to physically look around the property in question as it was owned by somebody else by that stage. By involving a valuer from the beginning the whole situation would have been resolved much more quickly."

THE CROWN'S MAN IN THE FIELD

As Director of the Crown Estate's 360,000-acre rural portfolio Christopher Bourchier has responsibility for one of the UK's largest commercially run estates. He discusses some of the challenges with James Del Mar, Knight Frank's Head of Rural Consultancy

Image: Richard Stanton

James Del Mar – How important is its rural portfolio to the Crown Estate?

Christopher Bourchier – Very. It delivers very good financial results – over the past 10 years achieving an average total return of over 14% per annum. The portfolio is now worth over £1bn and acts as an effective diversifier of risk. Contrary to what some people might think there is no cross subsidisation between the rural and urban portfolios of The Crown Estate, so it has to perform in its own right. It also delivers substantial social and environmental 'capital', showing that doing well and doing good are not mutually exclusive.

JDM – In your view what is the estate's most important contribution to the country and will that change?

CB – I believe The Crown Estate has demonstrated – and will continue to demonstrate – that it is possible to compete commercially and beat industry benchmarks, while operating with integrity and adopting a long-term approach to stewardship responsibilities. We have defined our goal "to be the UK's most respected property business because of the commercial and sustainable way we manage a unique and diverse portfolio of assets".

JDM – What is the most challenging part of running such a large and varied estate?

CB – One of the most challenging aspects is information management. We have several thousand leases with customers based in locations from south Devon to the Moray coast and from Aberystwyth to the Norfolk Broads. Clearly, this scale and geography pose challenges, but new developments in IT are allowing great strides to be made. I recall an urgent investment issue arising in southern England last year when I was working at Glenlivet in the Highlands of Scotland. Full details were sent to me via my Blackberry and a decision communicated simultaneously to several key participants within five minutes. This would have taken (several) days a few years ago.

JDM – The estate's revenue goes to the Exchequer rather than to an individual owner, a family or commercial stakeholder. Do you think this makes management easier or more difficult?

CB – We have a very positive and clear strategic relationship with our principal stakeholders, Her Majesty the Queen and the Chancellor of the Exchequer. On a month-by-month basis we are accountable to our board whose non-executive members have knowledge and experience of all our market sectors – so there are no hiding places. This structure enables rapid decision making and perhaps fewer tactical changes of direction than may be experienced with individual owners who wish to be involved in day-to-day management. Our reputation for consistency and integrity also helps when developing business partnerships – a key area of current activity.

JDM – You have 780 farm tenants, how difficult has it been to balance maintaining a good working relationship with them

through farming's recent economic rollercoaster ride, whilst maximising the estate's income?

CB – Striking a balance is the key – we always seek to maintain a "firm, but fair" approach in all our dealings. In view of this we have rarely had to go to arbitration. This relationship is now informed by a "Business Deal", developed with groups of tenants, in the form of a "business/customer contract". Our strongest partnerships are with professional and business-orientated tenants who are keen to pursue mutual benefits from co-investment projects.

JDM – What are the biggest external challenges that the estate has had to adapt to over the past few decades?

CB – The biggest challenges have come from the market – with very difficult trading conditions at times, accentuated by the shock effects of BSE and Foot & Mouth. The consequence has been significant structural change, particularly in the dairy sector. I am proud of the way we handled the Foot & Mouth crisis. Within a day of the first case being confirmed, we had developed a policy framework to abate rentals and support businesses that were in financial difficulty

JDM – And are there any other significant challenges that you think will need to be overcome in the next few decades and how do you plan to react to them?

CB – One significant challenge is commodity market volatility. Setting farmland rents for three years when prices can move by over 100% within a year is very difficult. We have, therefore, introduced a new approach that we have called "FBT(v)", for farm business tenancies, where the "v" stands for variable. In brief, we are looking to agree a fixed base rental – plus an element linked to market prices, such as the grain market. This new approach has been welcomed by our tenants and their representatives as a major step forward in partnership development.

JDM – The Common Agricultural Policy is currently undergoing another round of reform. What, if any, changes would you most like to see come out of Europe?

CHRISTOPHER BOURCHIER: BIOGRAPHY

Christopher Bourchier studied Agricultural Economics and Biological Sciences at Nottingham University. He was Head of Agriculture at ADAS before joining The Crown Estate in 1996. He has been director of its rural estate for six years.

CB – The most important principle is that of consistency of implementation. While there is merit in certain local interpretations of the CAP, we are in a highly competitive market and it is very important to ensure fair and equitable treatment across the entire European Union.

JDM – How important a financial contribution do diversified businesses make to the estate's income?

CB – They are crucial to the successful development of rural estates – and their benefits are wider than immediate income. They enable motivated and highly skilled young people to work in rural businesses and ensure viability where land area may be limiting. They add value to local products – and in turn stimulate other sectors, such as tourism – benefiting many other local businesses. An example is our Dunster Estate on the edge of Exmoor, where we have moved from 'commodity farming' to an integrated rural business economy producing value-added food; high-value business services, including an architect practice, race horse training and destination tourism.

JDM – What about renewable energy?

CB – This is a huge opportunity and we are already involved with a wide range of wind, biomass and solar renewable energy schemes. We are also looking at anaerobic digestion (AD), but switching land from food production to growing AD feedstocks such as maize wouldn't sit very well with our sustainability ethos. Some of our tenants are keen to jointly fund energy projects, but others would rather direct their capital towards core farming enterprises.

JDM – The government is currently overhauling the country's planning system. Is this a good thing and what would be the most positive changes for rural estates?

CB – There is little doubt that the planning system has become too complex and decision-making too slow. There is equally no doubt that some seek to exploit planning opportunities for their own ends rather than to deliver lasting quality. The principal challenge is to ensure that outcomes add to "quality of life" for all, in the widest sense – rather than just short-term profits for property developers.

JDM – What do you think will be the biggest changes to the management of the estate in the 21st century and do you foresee it looking significantly different in structure or size?

CB – In recent years we have been working to ensure consistent quality of progressive management and customer focus. This is work in progress where, at its best, we have innovative tenants working with energetic managers to add value and profitability for mutual benefit. We are determined that this should become the norm in order to achieve our long-term goals.

JDM – If you had one piece of advice for other rural estates what would it be?

CB – The most important assets on an estate are the people. Some of our highest returns on investment are achieved through enabling individuals and their businesses to flourish. I suspect we could all do more to develop progressive business partnerships that share risks and rewards.

www.thecrownestate.co.uk

To read the full interview please go to KnightFrank.co.uk/Rural

Knight Frank is involved with almost 75,000 acres of The Crown Estate, including large estates in Staffordshire and Cheshire and over 60,000 acres of Welsh common land. Its role ranges from the preparation and implementation of strategic plans to day-to-day management. Specialist advice is also provided on renewable energy and the management of The Crown's marine estate in south-west England.

For more information please email **james.del.mar@knightfrank.com** or on 01488 688 507.

DO YOU KNOW YOUR BOUNDARIES?

It may sound a slightly odd thing to ask a rural property owner, but it is a genuinely worthwhile question as I have yet to undertake a boundary survey on an estate and find no issues.

It will have escaped few landowners' notice that the Land Registry has been pushing hard for voluntary first registration of all properties – its optimistic target is for total registration in England and Wales by 2012. Although this process is voluntary, it is certainly advisable. Further to this, there is a need for landowners to register any 'manorial rights', such as mineral or sporting rights, by 12 October 2013. From that date they will cease to be 'overriding interests' and, as such, will be lost.

First registration, although essential to protect your boundaries from adverse possession, is not the panacea that will prevent all future boundary issues.

One area where issues can often arise is the preparation of plans, which should be based on the latest Ordnance Survey (OS) data. Most plans are drawn using the existing OS features on a plan as a guide. However, it is not always clear what these features actually are, particularly if there is a ditch, hedge or fence side by side. Also, the OS records physical features on the ground, not legal boundaries, so there could be gaps between what is legally owned and what is believed to be owned. Further to this, there are the usual scaling issues associated with OS data. Land Registry title plans therefore only show the 'general position' of boundaries and reference should be made to the original deed plans where possible.

For properties registered some time ago, there is a chance that boundaries – and often neighbours – may have changed since the plan was originally prepared.

Where properties are bought or sold with the need for new physical boundaries to be erected on the ground, these boundaries may not always reflect the agreed position on the plan. This may be due to landowners inaccurately measuring where the correct boundary should be, but also because boundaries may not be erected for many months after the transaction. By that time, any pegs in the ground (if there were any in the first place) may have since been removed and the process is also often undertaken without sight of the original plan or, at best, done with a photocopied plan not to scale!

So, what are the issues that may affect registered boundaries? There are many, and some of them can be difficult to resolve. Examples from our own clients' estates include: structural encroachment by fences and buildings; the removal of existing boundaries, such as hedgerows, by owners of adjoining properties to extend their views and gardens; composting, burning and dumping of garden waste; mowing; the construction of driveways and garden gates providing unlicensed access from adjoining properties; illegal parking and general trespass (whether local dog walkers using woodland or people taking shortcuts from existing rights of way). The list goes on.

Other potentially costly issues that could arise from land you might not have known was yours include subsidence and accident compensation claims – damage caused by a falling tree on a road verge, for example.

Although the Land Registry is now insisting on tighter submission criteria in regard to plans, this will not resolve all the issues discussed. There is a need for landowners to ensure that new plans accurately reflect the situation on the ground. Where new boundaries are required, these should be pegged out (ideally using GPS) as soon as possible after agreement is reached. Further to this, existing boundaries should be checked regularly to limit the possibility of issues arising.

Apart from the hassle and expense of resolving boundary issues, they often have an adverse effect when it comes to selling a property and could hinder or stall the process until settled.

Landowners who can't say for certain that they are content with both the position and condition of their boundaries should tackle the issue now, and that applies to everyone, even those with registered properties.

Knowing your boundaries is a vital part of effective estate management.

Michael McCullough, Head of Mapping at Knight Frank

Michael McCullough can be contacted at michael.mccullough@knightfrank.com or on 01488 688 508. Knight Frank's Mapping and GIS department has unrivalled experience in the provision of mapping services. It can also assist in the setting out and verification of boundaries, as well as offering a consultancy and data capture service and guidance on the acquisition, implementation and use of mapping software.

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


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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.