THE RURAL REPORT

EXPLORING THE ISSUES THAT MATTER TO ESTATE OWNERS AND RURAL BUSINESSES

2020

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Pandemics, politics
and tree planting

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THE RURAL REPORT

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Welcome to the 2020 edition of *The Rural Report*

Our dedicated magazine for rural property owners and businesses

Each year this publication takes the long view and offers thought leadership about the future of the rural economy and property sector. Never in our lifetimes could this be more important. Nor have we been given more time to challenge assumptions. A decade after we first launched *The Rural Report* radical change is upon us.

In 2010 we saw strong investment in farmland as markets began their slow rebuilding process after the financial crash. Today, the biological shock of Covid-19 is dramatically effecting the entire global economy. How economic recovery will look in 2021 and beyond is uncertain. Real assets such as land, however, increasingly have their attractions to investors.

Change was upon us in any event. Whether regulatory as we leave the EU, or climatically as the UK responds to growing political and societal concern, through changing trade conditions or via technological advances and land use practices. Disruption with a capital D!

The demands on our land increase with each decade. Carbon sequestration and assessment of natural capital feature in this report. Forestry has new impetus as an alternative land use. This plays well to the long-term outlook of so many Knight Frank clients and is a new service offering.

But no business should be immune from scrutiny of its component parts, our own included. Summer 2020 will be remembered for those who looked under the bonnet and made their own changes, and those who awaited events.

We at Knight Frank enjoy helping our clients strategically review their businesses in an independent and collaborative way, and I am sure this edition of *The Rural Report* will provide food for thought. Tom Heathcote's Five Cs article on page 38 is particularly thought provoking. Never waste a crisis is the mantra. Meanwhile land will continue to provide many new and exciting opportunities.

Please do get in touch. You will find all our contacts on page 54.

ROSS MURRAY
Chairman, Rural Asset Management

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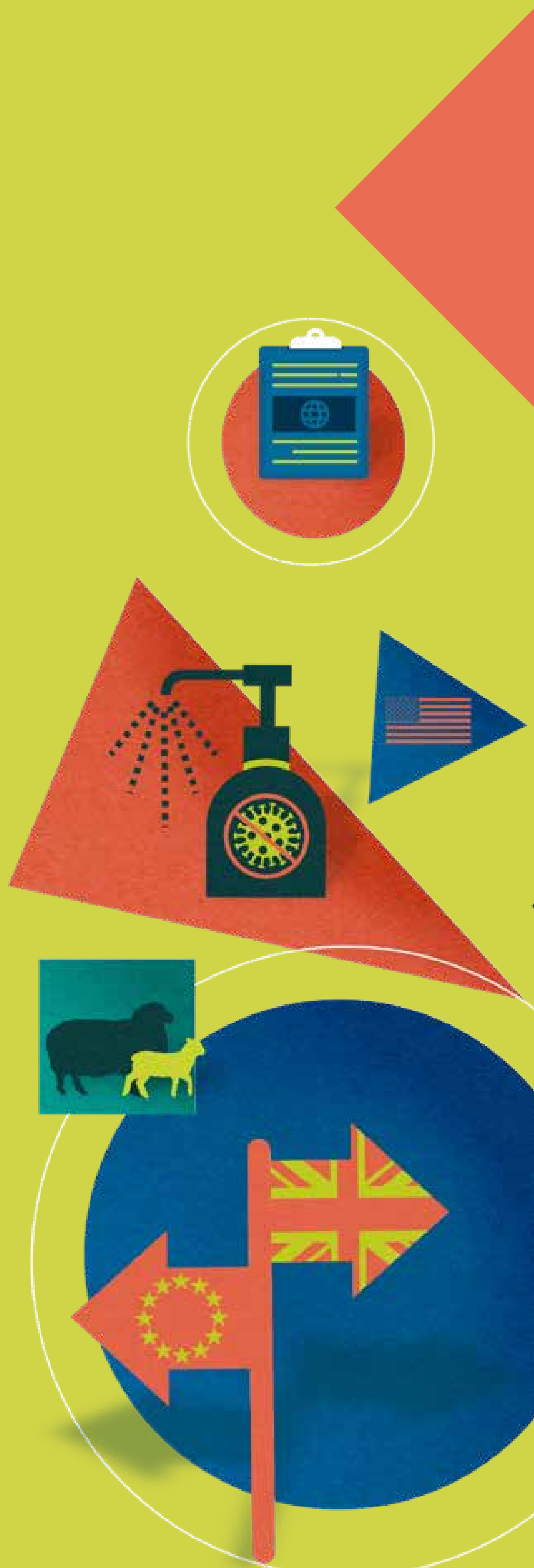
Issues & insights

A guide to the challenges and opportunities facing estate owners and rural businesses

In this section

The art of the deal

Andrew Shirley mulls over the negotiations shaping the future face of food and farming in the UK



By the time you read this the 30 June deadline for requesting an extension to the UK's transition period from the EU will have passed or just be on the verge of expiring.

The chances are that, despite vociferous lobbying from many quarters including the agricultural industry, Boris Johnson, who staked so much political capital on delivering Brexit, will have authorised no such request and the transition period will end as planned on 31 December.

Those calling for an extension argue that the disruption caused by Covid-19, including the Prime Minister's own apparent near-death experience and the illness of key negotiators, has made it impossible to strike a Free Trade Agreement (FTA) with the EU in time.

It's not a sentiment shared by most of the respondents to our latest Rural Sentiment Survey (page 14). Over 55% say no to an extension. Most, even those who voted remain, just want to get on with things, while others worry about getting drawn into the EU's fiscal problems.

Those close to the negotiations say a deal is still not impossible within the current timetable, but concede it is looking increasingly less likely, given the UK and EU are still some way apart on fisheries policy and the concept of a post-Brexit 'level playing field' in terms of regulation and state aid. So far apart, some would argue, that a delay would make no difference anyway.

No agreement means we will trade with the EU under WTO terms with the immediate introduction of tariffs on most of the goods we export. This would hurt livestock producers the hardest and would lead to the more marginal being forced out of business, according to one economist I spoke to.

Although another I quizzed doesn't rule out one more face-saving fudge for both parties that would see some kind of memorandum on trade even if a full FTA isn't in place.

Meanwhile, Trade Minister Liz Truss seems more focused on delivering a headline-grabbing FTA with the US. This is another area of concern for the farming sector, heightened somewhat since the government kicked out an amendment to the Agricultural Bill that insisted food imports to the UK meet the same standards that farmers here have to adhere to.

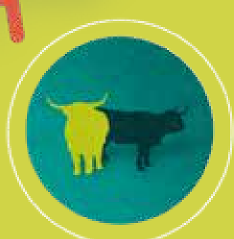
These standards are a huge bone of contention to US negotiators who see our food sector as a big opportunity. From the UK's perspective, however, improved access to America's financial services is seen as the big prize. Farmers fear it is they who will be sacrificed in order to claim it.

In the end the final decision may come down to the British public as it does its weekly shop. Cheaper imports or UK standards. It will be up to the farming industry and its lobbyists to make the case.

The Next Normal

Ross Murray reflects on the rural outlook post-Covid

It is now that real assets such as farmland and forestry come into their own



This spring, the loveliest in a generation, has been marred by the awful implications of Covid-19. Not just for the economy, but for its effect on so many personal lives and, for a minority, their health. It has been an extraordinary turn of events.

For those of us lucky enough to live in the country the lockdown has been a routine of Zoom and home working, home cooking and home schooling, online yoga and interminable quizzes, locally sourced food, gardening and Amazon deliveries. Reliance on the internet has been absolute.

I thought last year's political dramas were excitement enough. Indeed, I concluded in the 2019 edition of *The Rural Report* that it was time to de-risk and wait for opportunities to emerge. Did I take my own advice? Only in part, alas. Now the economy has shut down so precipitously there is limited merit in looking back. Circumstances require a rather more strategic view forward.

It is the implications for food and farming that now occupy my own and many others' thoughts. But change was upon us in any event. The Agriculture Bill fundamentally resets the basis of future support – a more market-based UK agriculture with public money paid only for public goods.

What price natural capital or environmental services? Still unresolved, but a significant opportunity. With the carbon market in its infancy we will need to do the maths carefully as we are weaned off subsidy.

My sense is that in the new world of monetary finance, with governments funnelling money into the economy to support livelihoods and businesses, investors will search for safer havens for their capital. It is now that real assets such as farmland and forestry come into their own.

The caveat is that agriculture needs to further specialise, while farmers better understand the opportunity that conservation payments provide. Mechanisation is essential to de-risk vulnerabilities of vegetable and fruit farming. Regenerative agriculture is the new religion while rewilding will be the choice for some.

Will our new found love of locally sourced food become a permanent shopping habit? Only in part, and the imbalance of advantage between producer and retailer still needs addressing by government.

What will the post-Brexit trade situation bring? Cheaper food from abroad, surely, whatever the romanticism around food security. Ergo watch your costs of production and/or secure value-added local markets.

Will we holiday more at home? Certainly, and this is an immediate upside for providers of accommodation.

But hanging over all of this is the climate change dilemma. Imagine a world where permanent temperature rise and weather volatility moves whole populations and changes land use. That is when governments really earn their corn. And then rural Britain will be more appreciated and properly valued.

Degrees of zero

Andrew Shirley interviews Dieter Helm about his new uncompromising book on climate change that poses some tough questions for agriculture, and us all

Reading an advance copy of *Net Zero – How we stop causing climate change* while sitting on a plane thousands of metres up in the air is the literary equivalent of a long, hard stare from Paddington Bear. It makes me feel slightly uncomfortable.

Dieter Helm's latest broadside in his crusade against climate change encourages readers to create carbon diaries to help them take personal responsibility for their own contribution to climate change. A long-haul flight, even if it is for business, isn't the ideal way to start mine.

As we chat a few weeks later over Skype – by now the country has been locked down to contain the spread of Covid-19 – the Oxford University professor, who is also Chairman of the government's Natural Capital Committee, sounds quite angry that he's had to write the book at all.

Net Zero follows in the footsteps of several others including *Carbon Crunch and Burn Out,* not to mention *The Cost of Energy Review* that he produced for the UK government in 2017, which have all detailed the threat from rising carbon emissions.

Thirty years of grand meetings, statements of intent, international treaties, accords and ineffective carbon-trading schemes have, Professor Helm claims, achieved virtually nothing to help slow down global warming. "When set against the enormity of the consequences, the only rational response is anger."

Net Zero starts out by outlining the failures of governments and inter-governmental organisations in some detail, but what vexes him regarding the UK's current response is that he firmly believes we are working towards the wrong target. This, as specified by last year's revision to the 2008 Climate Change Act, is to reduce our own net carbon emissions to zero by 2050.

"In its report on net zero last year, the government's Climate Change Committee explicitly said that when we get to zero we'll no longer be causing climate change," points out the professor. "I think that's what most politicians think is the case, and I think that they have convinced the public that's the case, but it's simply not true," he adds.

Such an approach focusing mainly on the UK's emissions and not enough on consumption will lead to bad policy decisions and complacency, he worries. "By deluding people about what could happen you might find it more difficult to do what's really necessary. But the really deadly bit is that if we reduce emissions in Britain, ignoring what's happening in trade, we could make things worse.

"*When set against the enormity of the consequences, the only rational response is anger*"

> *Where's the conflict between putting the soils back into decent shape and food production?*

"From a net zero carbon production perspective, ignoring imports, the best thing you could do quickly to get down our territorial emissions is close British Steel, close INEOS, and hope that Brexit kills off the car industry, and just import the stuff instead."

That, however, would actually increase global emissions and make climate change worse, he points out. "The steel would probably be made less efficiently in China with much greater coal intensity."

The same logic applies to agriculture, he explains. "If we simply import stuff from Brazil grown in areas of the Amazon that are cleared for cattle production, global warming would go up, not down, as a result. That makes me angry, angry that people have been led to believe something that simply is not true."

As part of *Net Zero's* blueprint to mitigate climate change, he proposes levelling the playing field by levying a carbon border tax on imports into the UK, based on the carbon emitted across their production cycle. This would also encourage other countries to cut their emissions, he suggests.

This is the point where farmers, worried about the threat of post-Brexit food imports produced to lower standards, could start to feel encouraged. A bit of protectionism in the name of climate change might not go amiss. But as anybody versed with the professor's remorseless 'polluter pays' economic logic will know, it's by no means a get-out-of-jail free card.

Investing in soils will boost yields

In fact, Professor Helm sees agriculture as an ideal test bed for the ideas he proposes in *Net Zero*, which aside from the carbon border tax include forcing down emissions by putting a price on carbon, while ramping up sequestration and offsetting.

I point out, contrary to what certain environmentalists and reports might have you believe, that agriculture is a far lower emitter of carbon in the UK, according to government statistics, than residential property or transport. But my defensive move is outflanked.

"Let's put agriculture into perspective," responds the professor. "First of all, the emissions that are being measured at the moment don't properly include soils and peats. So even on the current numbers, the true contribution of agricultural emissions is underestimated, and I would say seriously underestimated.

"You might say it's still only 10-15% of emissions, what about the other 85%? But now you have to have a sense of perspective. Whereas the electricity and the transport sectors, which each account for 20 to 25% of emissions, are big chunks of the economy, agriculture is just 0.6% of the economy."

Economic consequences

"So the place where you would start on your emissions reduction targets, from an economic perspective, is with agriculture. It's the cheapest place to do it because the economic consequences of any effect on agricultural output are trivial relative to the size of the economy overall."

It's a harsh message, but it gets even blunter as Professor Helm gets into his stride. "The next thing to say is of that 0.6% of GDP, probably half of it we, the tax payers, are paying for. So the genuine economic output of agriculture net of the subsidies is even lower.

"To put it another way, if we're pumping all this money into this sector, we should think very carefully about what 'value for money' we're getting, and, in particular, if consumers and others are having to spend lots of money paying for reductions in emissions in transport and electricity, all of which will have to be done, the question is would it be cheaper for them to do some of this via agriculture?"

But, I venture, wouldn't a carbon tax or extra regulations that make UK agriculture even less

The Amazon is under threat

competitive just off-shore the problem, which is what we are trying to avoid?

The professor doesn't see it that way and believes a virtuous circle is possible. "I'm very keen on farming, and very keen on food production with a level playing field. What I'm interested in is farming that is both sustainable from an environmental perspective, and sustainable from a farming perspective.

"Where's the conflict between putting the soils back into decent shape and food production? The conflict is between allowing the degradation of soil to carry on and thinking you're going to be able to sustain food production going forward. This is about better farming, and better management of the land. It's absolutely not about blanket planting of trees or ideas which I'm highly critical of like re-wilding.

"I can't think of any sector where there is a greater scope for improvement on the carbon front which is of lower net economic cost than any other sector of the economy. So it's the obvious, in my view, no-brainer place to start."

Whether farmers will be convinced remains to be seen, but there will certainly be a carrot as well as a stick if Professor Helm gets his way. For starters, he believes a new market for carbon sequestration, beyond just planting trees, carbon offsetting – "you can never cut emissions completely to zero" – and the other public goods that landowners will be able to tap into is just around the corner.

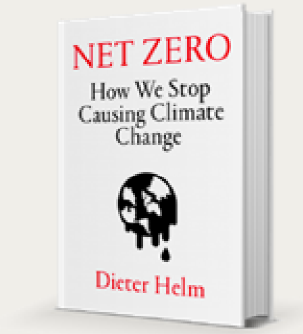
Ultimately, however, it is the behaviour of consumers that will determine if the UK can really cut its carbon emissions, Professor Helm, says. "What I've tried to do in *Net Zero* is to say if you seriously, unilaterally want to stop causing climate change, this is what you actually have to do and we should stop kidding ourselves that it's all going to be free or cheap."

Covid-19 has forcibly helped everybody to improve their carbon diaries – according to the International Energy Agency CO_2 emissions are set to fall 8% this year – so I'm feeling less guilty about my flight. But the questions Dieter Helm asks in *Net Zero* won't go away and will continue to make a lot more people feel rather uncomfortable.

Turn to page 40 for carbon-cutting tips

"

If we simply import stuff grown in areas of the Amazon that are cleared for cattle production, global warming would go up, not down



Net Zero is due to be published in September 2020

My view

Off the back of the climate change debate, woodland has soared to the top of the UK's political agenda with promises to plant millions more trees. A cross-section of arboreal stakeholders share their thoughts on how this should be achieved and what it could mean for the country's rural landowners and farmers, as well as the population as a whole

The landowner

Mark Bridgeman, *CLA President*

There was a race at the last election for which party could offer to plant the most trees. As always, the devil will be in the detail and the CLA has fed in its suggestions to the government's Tree Strategy. The reason tree planting rates have been so low since the 1980s is that long-term incentives have not been attractive enough and the bureaucracy has put many people off.

There is a great opportunity to do a lot of tree planting within the farmed environment, as well as larger-scale forestry projects, to help achieve the goals. Almost every farm could do some planting, whether it is those awkward or boggy unprofitable corners or fields, expanding that narrow shelter belt, or wildlife corridors with wider hedges and more hedgerow trees. But for planting in the farmed environment to really accelerate, the system has to be simplified and there needs to be long-term payments for carbon and/or environmental payments.

The politician

Lord Goldsmith, *Minister for Forests*

Trees and woodlands provide a staggering range of benefits. With the right species grown in the right places, they are crucial to reversing biodiversity loss across the UK. They capture carbon as they grow, and a major increase of tree planting is a pre-requisite to delivering our net zero commitments. They play an under-appreciated but hugely valuable role in preventing flooding and managing water supply. And, of course, they provide a sustainable income and support our rural economy.

So now is an exciting time for forestry. We'll shortly be consulting on the England Tree Strategy which will deliver the English portion of our commitment to increase tree planting across the UK to 30,000 hectares per year by 2025. We need your help to create a strategy that maximises the benefits trees provide for nature, people and the economy.

And I want to reassure you that anyone creating woodlands today will not be disadvantaged when we transition to the Environmental Land Management scheme in 2024 – so I encourage land owners to take up our grant offers and help us create woodlands now.

The industry representative

Stuart Goodall, *Chief Executive, Confor*

Net zero emissions by 2050 is a pragmatic response by government to the massive challenge of meeting our climate change commitments, and brings into sharp focus the role of tree planting as a means of taking carbon out of the atmosphere comparatively cheaply.

England and Wales have repeatedly failed to meet modest planting targets, so what needs to change? Well, government officials have to recognise a climate emergency means the status quo can't continue and there has to be a clear acceptance that changing land-use implies accepting trade-offs.

And we need to embrace producing timber and providing a future income for the landowner. Wood products are all around us. Wood is low-carbon and with strong and rising prices it provides many landowners and farmers an opportunity to diversify as we leave the CAP.

In Scotland, cross-party recognition that forestry is an industry and a means to promote wildlife and recreation has seen real progress. We now need southern counterparts to do the same.

The conservation charity

Ellie Brodie, *Head of Land Management, Wildlife Trusts*

It's difficult to overstate the importance of trees and woodlands for people and nature. Some of the many benefits they bring include providing important habitats for wildlife, storing carbon, holding back flood waters and boosting our wellbeing through being an escape into nature.

The Wildlife Trusts want to see more tree cover across the UK to help nature's recovery and tackle the climate crisis. We want this increased tree cover to be strategically planned through a Nature Recovery Network following the principle of planting the right tree in the right place to ensure that trees aren't planted over other vital habitats such as peatlands and species-rich grasslands.

We also want to see more natural regeneration of existing woodland rather than restocking from nurseries because it fosters greater diversity, better protections against tree diseases and more suitable homes for our native wildlife. Wildlife Trusts across the UK are working hard to boost nature on people's doorsteps and further afield.

The investor

Richard Kelly, *Director, Foresight Group*

From an investment perspective, as one of the least forested countries in Europe, the UK is ripe for large-scale afforestation. To date, afforestation investment opportunities have been rare, but provide the opportunity for even greater returns than mature woodland. With the Government publicly supportive of mass afforestation, rural landowners and farmers have a once in a lifetime opportunity to enhance the value of their estates.

Afforestation investment sweet spots include northern England, the Scottish Borders and Western Scotland. These areas benefit from a combination of subdued land prices and optimal growing conditions. Schemes designed with a large proportion of high-yielding species, such as Sitka spruce, will be more highly valued. Land that comes with a high-quality afforestation feasibility study and a relatively low level of planning risk will be particularly sought after.

With the increasing importance of ethical, social and governance ("ESG") considerations, expect to see substantial institutional appetite for the coming wave of UK afforestation investment opportunities.

The ecologist

Dr David Hetherington, *Woodland Advisor, Cairngorms National Park Authority*

A tempting quick fix, both in terms of meeting ambitious national planting targets and rapidly sequestering carbon, would be simply to plough-and-plant rows of fast-growing conifers native to other continents.

These plantations undoubtedly have a purpose, but typically lack the more complex structure and diversity of plant and animal species found in more natural woodland. Overly invasive ground preparation methods in carbon-rich soils can mean the plantation is a net emitter of carbon for much of its early life.

The sensitive design and planting of diverse new woodlands, which make good use of the rich palette of native tree species available, would not only sequester carbon and help manage flooding downstream, but would bring huge benefits for an array of wildlife, help shade our ever-warming rivers, and provide us with a greater recreational and sustainable timber resource.

Here in the Cairngorms National Park we are aiming for 1,000 hectares of new woodland every year and much of it is happening through unfenced natural regeneration from existing seed sources. Thousands of new hectares of mainly Scots pine and birch woodland are being created by reducing deer grazing pressure, ensuring the right tree in the right place with minimal disturbance to carbon-rich soils.

The forester

Andrew Bronwin, *Andrew Bronwin & Co*

Much of my career as a forestry agent has been spent battling against low timber prices and government indifference to trees and woods. Those times are now behind us with a significant rise in timber prices and the realisation that trees can help in the challenge of climate change.

Devolved governments are investing in forestry at very different levels. Scotland is leading the way with a commitment to create 15,000 hectares of new woodland by 2025, Wales has huge potential, but is struggling to meet a more modest target of 2,000 hectares due to lack of funding, while England is something of an unknown with many more competing land uses.

The fallout of the Covid-19 pandemic is, of course, unknown but there is no doubt that there will be substantial and long term demand for timber products. Our own domestic supply will dip from 2030 following a dearth of planting over the past 30 years and there will be good opportunities for woodland owners to realise full value from their assets.

Taking your temperature

The results of our 2020 Rural Sentiment Survey reveal the impact of Covid-19 on landowners and other rural businesses*

Diversify, diversify has been the mantra for rural businesses for some time now, but Covid-19 has ruthlessly exposed how those reliant on certain sectors can see their incomes plummet overnight.

Almost 80% of our survey's respondents believe their profits will fall in 2020, 35% of them significantly. Those estates relying on traditional sources of income say they are less affected, but those with large tourism or leisure enterprises are hurting badly.

Just under 40% of those taking the survey said they had shut down elements of their businesses, while a similar proportion said tenants were struggling to pay their rents. Four out of ten had furloughed staff, but only 3% had resorted to redundancies and fewer than 8% believed their long-term viability was under threat, although an extended lockdown could change that.

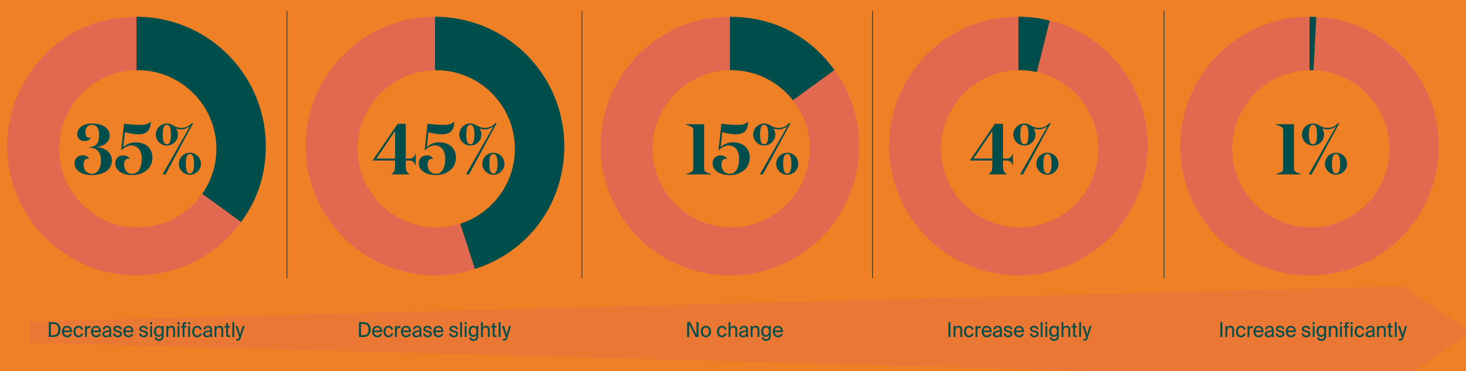
Some businesses, though, said the crisis had forced them to make their company more efficient and a number reported a potential rise in profits. A desire to shop locally and supermarket supply chain issues have boosted footfall at farm shops and butcheries.

While 64% think this trend will continue with the public placing more value on locally produced food once the current crisis passes, they are less certain those in power will follow suit. Over 70% of respondents believe the government, in light of the pandemic, should put more emphasis on food security, but only 20% believe that will actually happen.

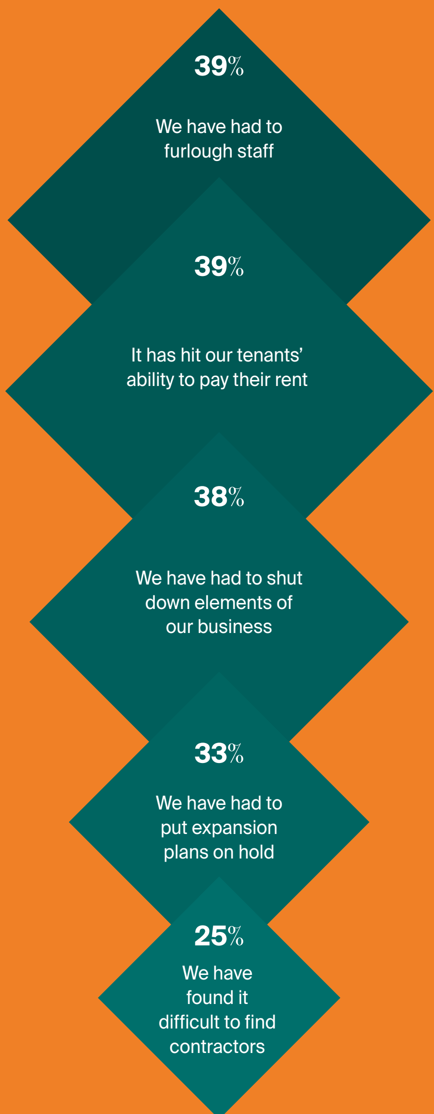
One thing the majority of those taking the survey don't want to happen, contrary to calls from rural lobby groups, is for Covid-19 to be used as a reason to extend the UK's Brexit transition period, which runs to the end of the year. "That would just lead to more uncertainty," points out one respondent.

> *"If, by 1 July, we have been unable to open to visitors, we fear many staff will be made redundant*

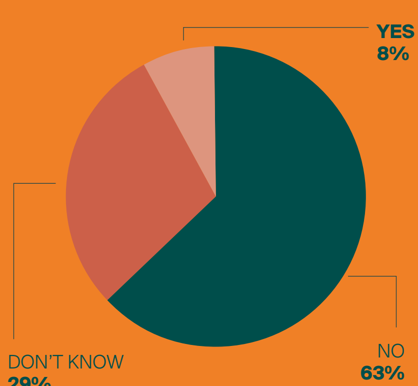
HOW WILL COVID-19 AFFECT YOUR PROFITABILITY IN 2020?



HOW HAS COVID-19 AFFECTED YOUR BUSINESS?**



WILL COVID-19 AFFECT THE LONG-TERM



Aside from the virus, the big issues negatively affecting rural businesses haven't changed since our 2019 survey. Poor broadband, planning issues and fly tipping are comfortably the top-three concerns of respondents, although a significant number are worrying about the impact of leaving the EU.

Woodland is top of the list when it comes to our respondents' plans for the next two years – almost half say they will plant more trees – but, encouragingly, expansion of existing businesses is on the cards for almost 45%, with 29% confident enough to want to create a new diversified business and over a quarter looking to buy or rent in more land. Only 9% are planning to retire.

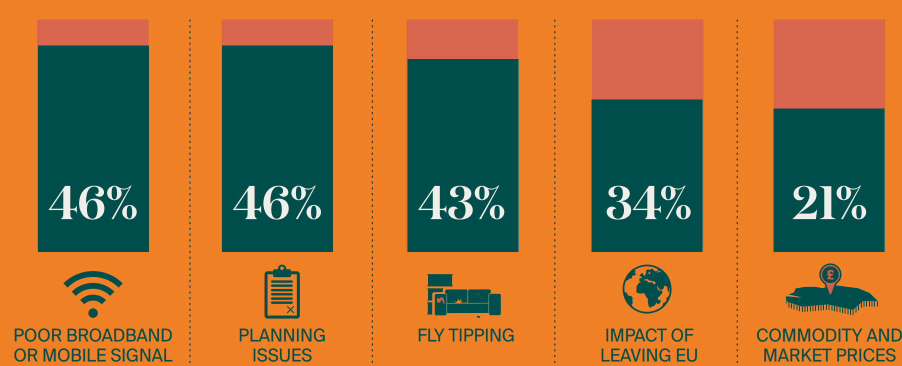
> *"Quality, welfare, provenance, food miles and bio-security all simply get lip service*

IN LIGHT OF COVID-19 SHOULD THE GOVERNMENT ASK FOR AN EXTENSION TO THE BREXIT TRANSITION PERIOD?

30% *Yes* **56%** *No*

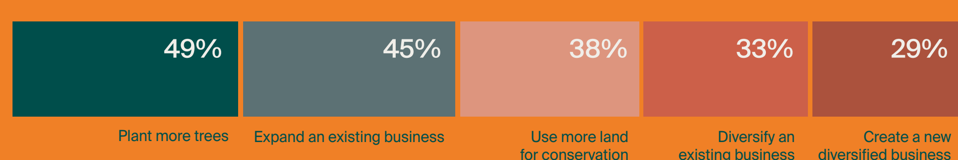
Don't know: 14%

WHICH OTHER ISSUES HAVE NEGATIVELY AFFECTED YOUR BUSINESS OVER THE PAST 12 MONTHS OR ARE LIKELY TO DO SO OVER THE NEXT 12?**



OVER THE NEXT TWO YEARS WHAT PLANS DO YOU HAVE FOR YOUR BUSINESS**

Responses are not mutually exclusive



*The survey was conducted between 29 April and 4 May 2020 **Top 5 responses. See knightfrank.co.uk/ruralreport for full results

Property focus

Discover our latest farmland market insights and explore our global property portfolio

In this section

Main image: Crowhurst Place, Lingfield. Offers in excess of £6,000,000
Full details on page 26

Where now?

Head of Rural Research Andrew Shirley looks at the state of the farmland market and where it might be heading post pandemic

Looking back to the property section of the first edition of *The Rural Report* that I wrote ten years ago, there are some striking differences, but also a few similarities, compared with the current situation we find ourselves in.

At that point, the average value of land, according to the Knight Frank Farmland Index, was at a record level of almost £6,000/acre, having risen by 13% in the first half of 2010 off the back of annualised growth of almost 20% in the preceding four years (see overleaf for more facts and figures).

> “**With the current pandemic likely to show value drops in the residential housing market, land may well again be seen as one of the safest asset classes to invest in**
>
> Tom Stuart-Moore, Farms & Estates, Scotland

Wheat prices had nudged over £200/t and investors still feeling the fallout of the global financial crisis were seeking out tangible asset classes.

We are certainly not seeing that kind of growth now. Average values have increased by around £1,000/acre since then, but during the 12 months to the end of Q1 2020 prices have shown zero growth.

Even over the past 10 years they have risen by only 29% (things slowed down considerably after the market peaked at the end of 2015) – comparable to other property classes and the FTSE 100 equities index, but a far cry from the aforementioned double-digit annual growth at the beginning of the decade.

Of course, back then, Brexit and the prospect of leaving the embrace of the Common Agricultural Policy (CAP), weren't really on the agenda – the only vexing EU issue on the horizon was the 2014 reform of CAP – and the market hadn't come to standstill due to a global pandemic.

But I mentioned some similarities. The imbalance between supply (the lack of it) and demand (the strength of it) remains a key feature of the market. In 2010, my agency colleagues were lamenting the low levels of stock – only 160,000 or so acres were advertised publicly that year – last year that figure had dipped to under 100,000 acres, and due to the Covid-19 lockdown will very likely be lower still in 2020.

However, at the time of writing, movement restrictions in England had just been relaxed enough to allow farm viewings and valuations to recommence and the market has started moving again. By the time you read this Scotland and Wales will also hopefully have unlocked, too.

So what of the outlook for prices? Well, if we take a step back to before the virus struck, 2020 was shaping up to be the most promising of the past three or four years. A decisive general election result for the Conservatives at the end of 2019 had removed some of the political clouds overhanging the market and, of course, the UK had finally left the EU on 31 January ending yet more uncertainty.

The pent-up demand from buyers that had been accumulating was all set to be unleashed. In the end though, the market never had time to get going before it was shut down in March. But careful analysis of the sentiment of those buyers registered with us suggests that the desire of all but a few to acquire farms, land or estates remains undiminished.

Values, in the third quarter of the year are likely to show the first significant quarterly rise since Q4 2015 with prices forecast to remain steady in the final quarter of the year.

What happens next is more uncertain. As mentioned earlier, our eventual departure from the EU did provide some clarity, but as yet a final trade deal has not been agreed. With the deadline of 31 December looming (at the time of writing no extension had been requested by the UK government) and politicians occupied with banishing Covid-19, we may conceivably be heading for a no-deal situation that could mean trading with much of the rest of the world on WTO terms.

> **Lack of quality stock and demand for a safe asset will continue to drive the market**
>
> George Bramley, Farms & Estates, East of England

An outcome to be feared or welcomed? That depends on your point of view, but it would hurt certain sectors of the farming industry, in the short term at least.

Despite this, according to the results of our Rural Sentiment Survey (page 14), farmers in general remain optimistic. A significant number of the respondents plan to increase the acreage of their businesses, and in certain parts of the country developments like HS2 continue to fuel demand from affected landowners who, for tax purposes, need to reinvest their compensation money.

Another similarity to a decade ago is that farmland may rediscover its post-crisis, safe-haven status in the eyes of investors. Even before Covid-19 interest rates were at record lows and in some cases people were having to pay for the privilege of putting their cash on deposit. Why lose money in the bank – bond markets are hardly any better – or risk it in the stock market when tangible alternatives exist and the cost of borrowing is so cheap?

Farmland also has another ace up its sleeve that was only just emerging ten years ago. An increasing focus on the environment means exciting income streams in the form of 'natural capital' are starting to flow. Schemes that pay landowners to sequester carbon or deliver other environmental benefits and public goods are already available and could make up, in part at least, for the loss of CAP-style area payments that will fall incrementally over the coming years.

In parallel with this alternative way of thinking, a new breed of environmentally driven purchaser, such as the buyer of the Auch & Invermearan Estate (page 28) in Scotland, is emerging, and with huge swathes of tree planting on the political agenda (page 12) alternative land uses are coming to the fore.

It hasn't been an easy start to 2020, but we are confident the farmland market will prove resilient.

> **Covid-19 has demonstrated the advantages of living in the country and out of the conurbations and this will have a positive impact on the rural market**
>
> Clive Hopkins, Head of Farms & Estates

Patshull Estate, 3,583 acres in Shropshire/Staffordshire. The majority of the estate sold in 2020, with some land still available for purchase.

GET IN TOUCH

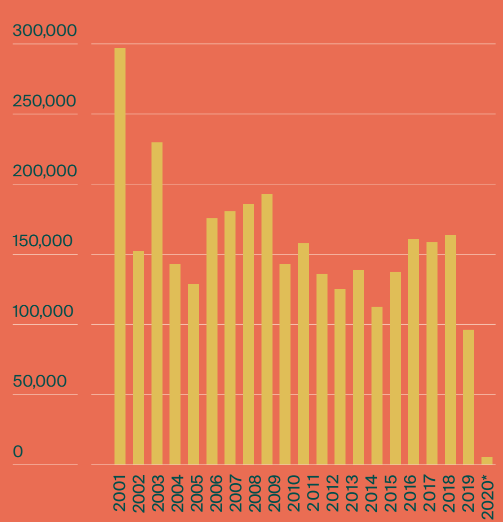
If you are thinking of buying or selling land please get in touch with our Farms & Estates team. All their details are on page 54.

The farmland market in numbers

Our data dashboard guides you through the long-term performance of farmland over the past 50 years

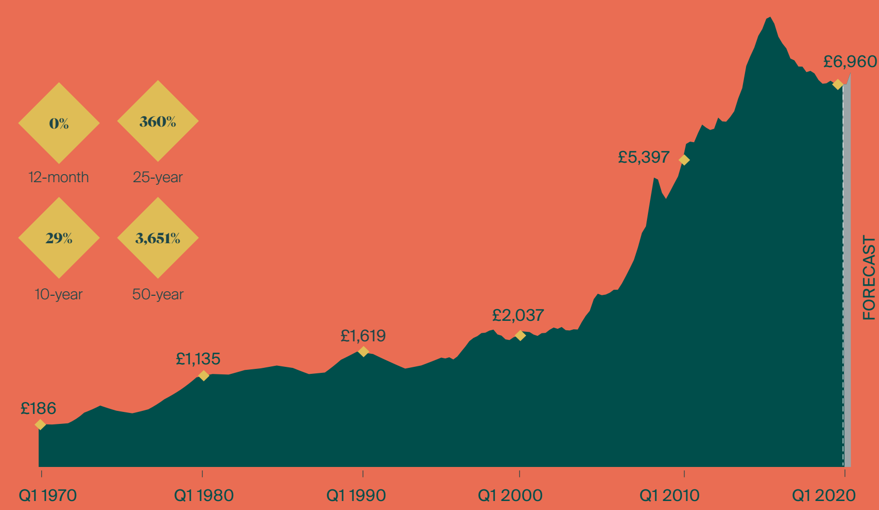
PROPERTY FOCUS

UK FARMLAND AVAILABILITY (ACRES)



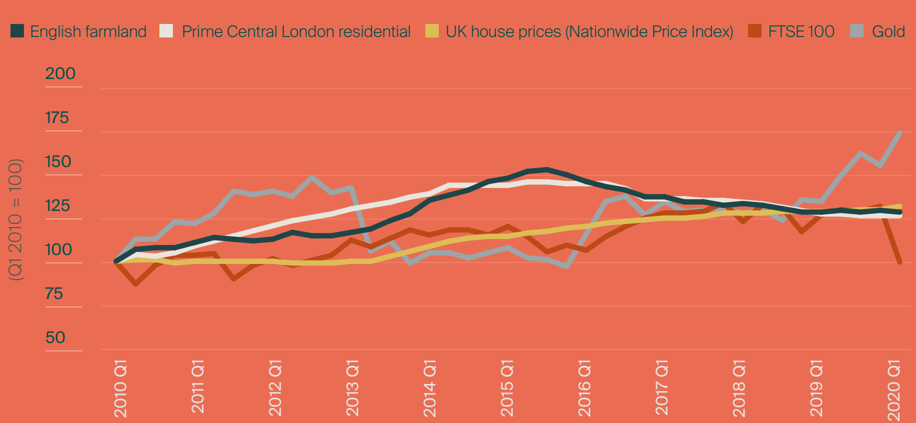
Source: DEFRA/Farmers Weekly *To 22 May (-71% YoY)

LONG TERM PERFORMANCE OF FARMLAND (£/ACRE ENGLAND/WALES)



Source: Knight Frank Research

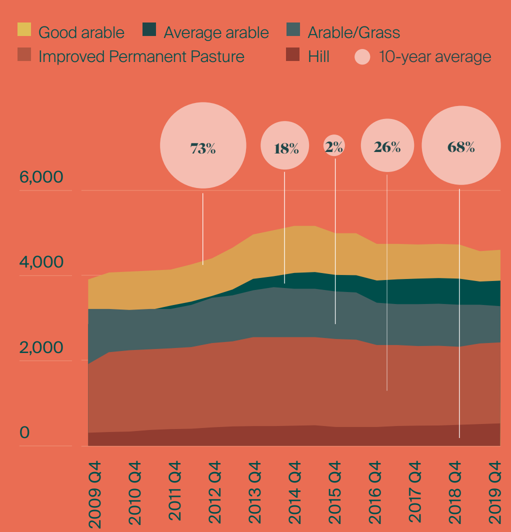
FARMLAND PERFORMANCE V OTHER ASSETS



	English farmland	PCL residential	UK house prices	FTSE 100	Gold
ANNUAL % CHANGE	0%	-1%	2%	-22%	30%
10-YEAR % CHANGE	29%	27%	33%	0%	75%

Source: Knight Frank Research

AVERAGE SCOTTISH FARMLAND VALUES (£/ACRE)



Source: Knight Frank Research

> *There appears to be retained desire from buyers registered with us to still buy land*
>
> Will Matthews, Farms & Estates, Southern England

AGRICULTURAL INDICATORS

OUTPUTS

	FEEDWHEAT (£/T)	OILSEED RAPE (£/T)
CURRENT PRICE*	149	311
2019 PRICE	147	306
2010 PRICE	108	279

	BEEF (P/KG DW)	LAMB (P/KG DW)
CURRENT PRICE*	338	476
2019 PRICE	347	452
2010 PRICE	270	398

	MILK (P/LITRE)
CURRENT PRICE*	28.6
2019 PRICE	29.0
2010 PRICE	24.0

INPUTS

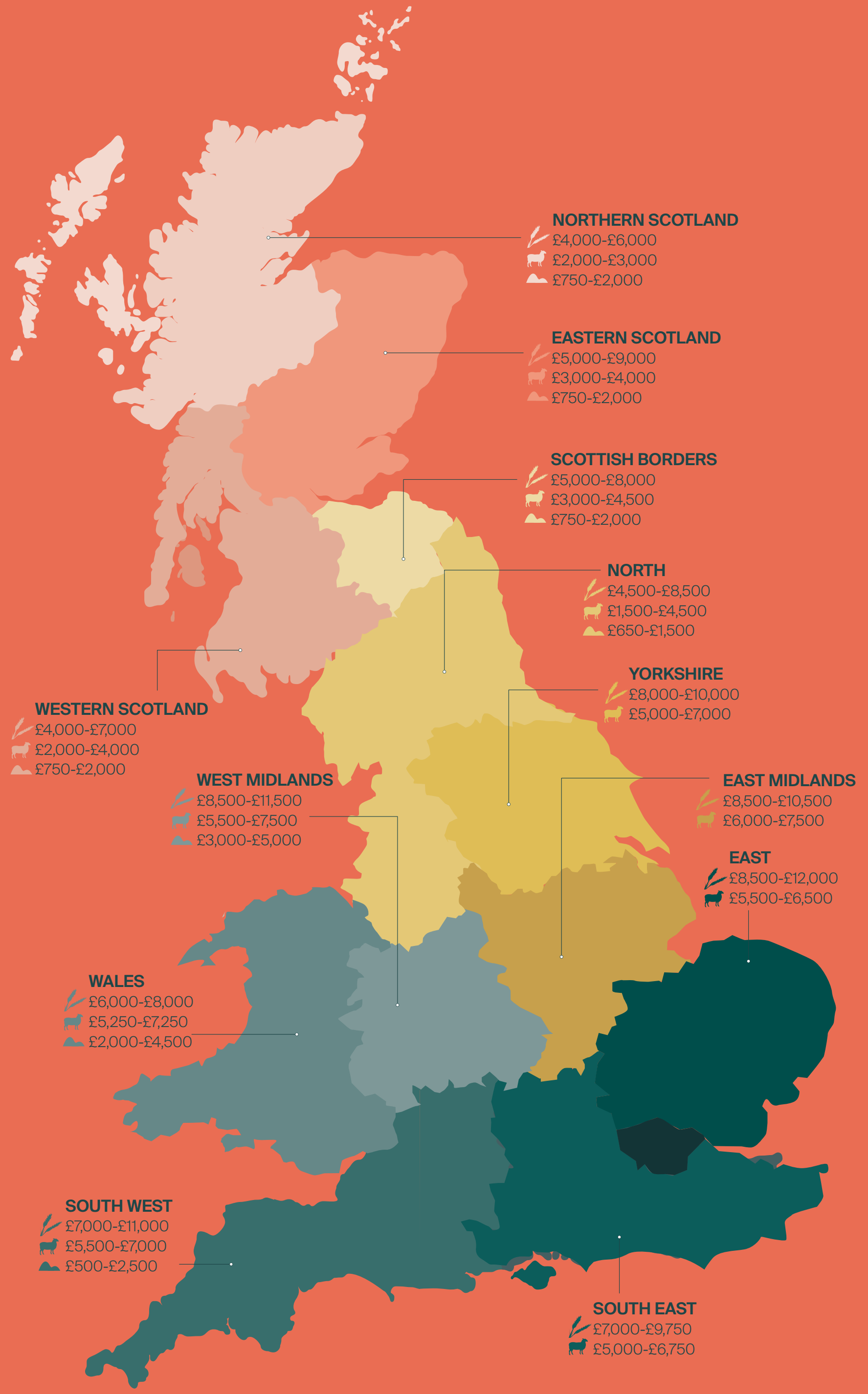
	RED DIESEL (P/LITRE)	OIL (US$/BRL)
CURRENT PRICE*	41	33
2019 PRICE	57	59
2010 PRICE	55	75

EXCHANGE RATES

	£:$	£:€
2020*	1.22	1.12
2019	1.27	1.12
2010	1.47	1.20

Source: Farmers Weekly/AHDB *Latest data available on 22 May

FARMLAND VALUES (£/ACRE)



Source: Knight Frank Research

Woodland opportunities

Ross Murray, woodland owner and Chairman of Knight Frank's Rural Asset Management division, asks our new Forestry Investment team about the market outlook and the opportunities for landowners offered by this emerging property asset class

"I have been an enthusiast for forestry as an investment class for over 25 years. The satisfaction of watching the trees' physical growth on annual inspections each autumn beats any other asset class in my book – so long as one can take the long view. No employment issues, limited government interference, well understood regulation and the undiminished balance of demand versus supply of fibre. And yet the UK still imports 82% of its timber requirements.

West and north Britain in particular are well suited to growing many varieties of tree, whether as a commercial crop, for carbon sequestration, sporting purposes, landscape enhancement and biomass. Or simply for pure pleasure, planting on land anywhere with the right species.

My conscience is clear as to the environmental benefits of tree planting and woodland maintenance. I recommend any family or institution that takes an inter-generational view on their assets to consider forestry in the mix – for capital growth, longer term income and the fun of its management. Knight Frank is enthusiastically taking up the challenge for clients."

Can I really make money from woodland and what are the biggest opportunities I should be looking at?

Andrew Bronwin: There is no doubt in my mind that most woodlands can make money. The focus should be on commercial species, particularly conifers, taking advantage of improved genetics, thinning at the right times in the rotation and felling when the crop has reached maturity. Too many crops are left well beyond maturity when quality and growth rates are declining.

Marketing and timing are key. Timber is like all commodities with prices fluctuating subject to exchange rates, domestic and global demand and specific events such as tree diseases. If you have enough woodland it is advisable to regularly feed the market with timber to even out the peaks and troughs.

Spotting a peak is usually more luck than judgement. It is essential to ensure that the product breakout is maximised. If the crop is suitable, cut for specific niche markets that will pay more and ensure the contractors extract all saleable volume.

Woods often play host to other activities such as shooting and recreation and there should be a good working relationship with the other woodland users so that the owner has income from a range of sources.

We are looking at the potential to make money from the natural capital element of woodlands through the sale of ecosystem services. There is growing interest in this market and while it is still in the development stage it is one to watch.

Can you explain a bit more about how I can claim carbon credits for any trees I plant?

Andrew Bronwin: There is scope to sell sequestered carbon from newly planted woodland. There must be additionality, so it is not possible to include existing woodland and the carbon can only be sold for the life of the crop.

The available carbon for sale will depend on species, soils and rotation length. Schemes must

49%

of respondents to our Rural Sentiment Survey said they will plant more trees in the next two years; the top response to our question about rural business plan priorities.

Douglas fir, Llanover Estate, South Wales be registered with the Woodland Carbon Code, validated at the time of registration and verified at year five to ensure the crop is established. The process is quite complex and owners should use an approved and experienced company.

Carbon can be sold at any point from the time of validation. For the first five years there is only notional carbon known as 'pending issuing units', although there is still a value for this product, with verified carbon credits available for sale from the fifth year.

There is increasing demand for carbon credits and, although prices have been low for many years, there are forecasts that values may increase fivefold over the next ten years. Not all the credits have to be sold at the same time so, subject to the size of the planting, it is possible to sell in tranches.

I believe owners should be looking to combine good quality timber production with carbon sales to derive an additional income stream from their new woods.

Is woodland becoming more popular as an investable asset class and what is the best way for our clients to invest?

Ran Morgan: Relative to our European neighbours the UK has a modest level of tree cover – 14% versus 38% – and the value of forestry traded each year is worth around only £150 million. It is, therefore, a small investment arena, but one that is set to grow as investors become increasingly aware of its qualities.

However, there are currently still relatively few players. Unless you are a landowner of scale who can plant your own woodland, it is a relatively difficult asset class to find at the moment. Understandably, demand is strong.

The majority of UK forestry is traded in Scotland, northern England and Wales. Forests can be bought and enjoyed privately or clients may wish to opt for a lesser investment and spread their risk by buying into a forest-based fund.

If you are considering a purchase always take advice. There are a great many factors that affect value and each opportunity should be measured against your investment ambitions.

Are estate owners like myself seeing the value of their woodland increase?

Clive Hopkins: In a word, yes. But the extent to which values are rising will depend on what kind of woodland you own.

If you own a standalone block of investment-grade coniferous forestry – easy to access and close to a saw mill – it will have grown in value significantly over the past ten years with an average annualised return of 9.2%. Over the past three years this has exceeded 13%.

Growth has been driven by the long-term outlook for timber, which is positive based on rising demand from the logistics industry for packaging material and a shift towards more sustainable construction materials, all combined with the UK's large timber deficit – we import 82% of what we require.

The same trend applies to land that has the potential for afforestation.

A parcel of conifers that is more integral to an estate and cannot be sold off easily will be valued more on the basis of current timber prices, which can fluctuate quite considerably.

Broadleaf or mixed amenity woodland is also likely to be worth more now, because of the softer conservation or lifestyle values that buyers are now prepared to proscribe to it and the rise of moral or legacy investing.

Can woodland still provide renewable energy and biomass opportunities?

Edward Holloway: Absolutely – woodland continues to provide a valuable source of woodfuel for use in renewable technologies and as the market for biomass products has grown in recent years, advancement in forestry equipment has made the management of previously uneconomic woodland areas more viable. If not doing so already, woodland owners should consider the opportunities presented by managing woodland for biomass alongside their other objectives.

However, the market conditions need to be taken into account for biomass products to make a return. April 2020 saw a significant drop in the value of crude oil prices as a result of the coronavirus pandemic which, coupled with an oversupply of electricity and a mild spring, led to a reduction in demand for biomass products and ultimately, a fall in value. That said, the long term expectations are that prices will rebound and biomass products will remain an important part of the forestry supply chain, offering opportunities for forestry and woodland owners to obtain a return from lower-value products.

INVESTMENT SERVICE

Knight Frank's Forestry Investment service can help with all aspects of woodland ownership, from advice on acquisitions and sales to timber establishment and management. Please get in touch with any of the team if we can help.

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Market view

Covid-19 may have held back the farms and estates market in the UK, but Knight Frank's global network means we can always offer a portfolio of amazing rural properties around the world. Over the following pages we highlight a selection of those recently sold or on the market now

UK

sold.

Bishops Court Farm

This fantastic 298-acre Oxfordshire estate sold earlier this year. Collectively, the farm offers extensive residential planning permissions, a Grade II listed farmhouse, a range of agricultural buildings and grassland with River Thames frontage. The farm's four paddocks are ideal for horses or livestock.

Guide price: £5,600,000

for sale.

Dewlish House

A 296-acre Dorset estate with a beautiful Grade 1 listed house. Set in stunning gardens and parkland designed by Jeffrey Jellico, the house has a wonderful approach, overlooking a lake to the south. The estate benefits from parkland, grass and arable land and about 53 acres of amenity woodland.

Offers in excess of £12,000,000

for sale.

The Membury Estate

A beautifully restored unlisted period house, in the heart of 370 acres. Surrounded by well laid out gardens and grounds, there are superb equestrian facilities, a car showroom, and modern and traditional farm buildings.

Price on application

for sale.

Crowhurst Place

This historic Grade I listed moated manor house has its roots in the 15th century. Within the 153-acre estate are a collection of attractive garden buildings and spectacular landscaped gardens which are divided into compartments, reflecting different character and colour throughout the year.

Offers in excess of £6,000,000

for sale.

Gotwick Manor House

On the Surrey-Sussex border sits this 514-acre rural estate. The equestrian facilities are extensive, with 18 stables, tack room, hay barn, indoor lunge barn and outdoor manège. The estate also offers mature woodland, a fishing lake, numerous cottages, and farm buildings with residential potential.

Guide Price: £9,850,000

sold.

Brawn Farm

Spanning 381 acres of the Severn Vale in Gloucestershire, this estate has versatility at its heart. The farm has considerable sporting appeal, with shooting, fishing and deer-stalking. There is an extensive range of farm buildings suitable for agricultural, dry storage or equestrian uses. Of note are 22 acres of established deciduous woodland with commercial potential.

Guide price: £2,950,000

Newtown Park

This Hampshire estate is home to the classical Grade II* Listed Palladian House, Newton Park, with views over The Solent. There are three additional cottages and a range of farm buildings, all set in 405 acres. To the south east of the main house is a private grass airstrip and hangar, a remnant of the Second World War airfield, RAF Lymington.

Offers in excess of £10,000,000

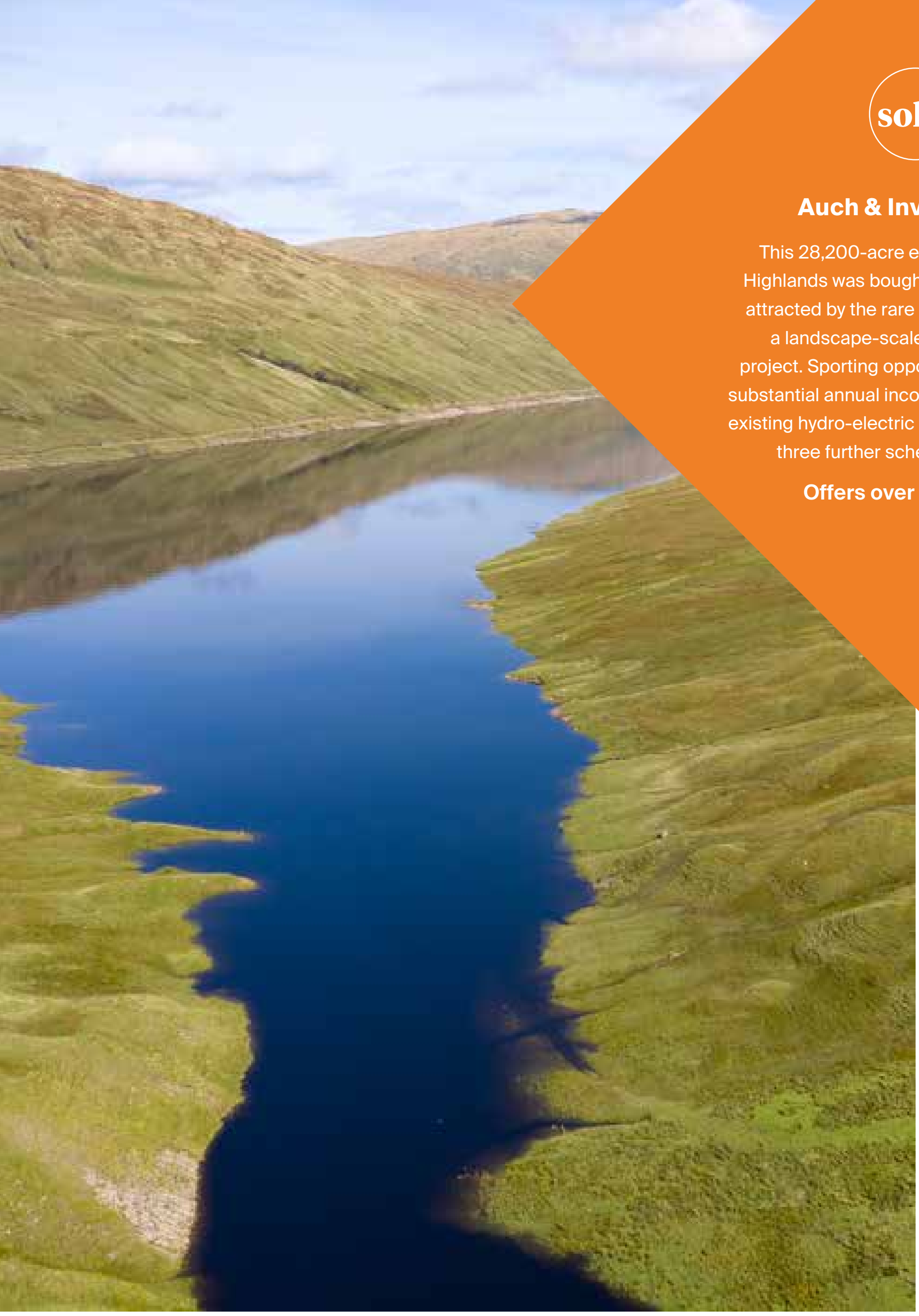
sold.

for sale.

Glenaros Estate

This 1,992-acre coastal property on the Isle of Mull would be perfect for anybody seeking isolation surrounded by spectacular scenery and sporting opportunities, which include 2.25 miles of single bank fishing for salmon and trout on the River Aros. In addition to the main house there is a farmhouse and three holiday cottages.

Offers over £2,000,000



sold.

Auch & Invermearan

This 28,200-acre estate in the Southern Highlands was bought by an overseas buyer attracted by the rare opportunity to develop a landscape-scale habitat restoration project. Sporting opportunities abound and a substantial annual income is generated from an existing hydro-electric scheme with consent for three further schemes also granted.

Offers over £10,000,000

for sale.

The Holme Rose Estate

This 350-acre amenity estate in the Nairn Valley was the former home of the Scottish Secretary of State. Sporting opportunities include 1.35 miles of single bank salmon and sea trout fishing, as well as roe deer stalking and pheasant shoot potential. The estate combines an A-listed Georgian country house, five cottages and a range of farm buildings.

Offers over £2,350,000

EUROPE

sold.

Fortgranite Estate, Ireland

This pretty 341-acre estate in Baltinglass, Co Wicklow, surrounds an 11-bedroom main house constructed in 1720 and comes with four other properties, and a range of traditional and modern buildings, including a 200-cow dairy. There are 200 acres of permanent pasture and 85 acres of parkland and meadows.

Guide price: €3,500,000

for sale.

Casamora, Italy

A stunning 2,470-acre food and tourism opportunity 35km from Florence. One hamlet of six dwellings has already been restored and includes a creative arts centre. The main house, two further hamlets and ten farmhouses await modernisation. A 200-acre olive grove produces Tuscan extra virgin oil. There is also a 990-acre hunting reserve.

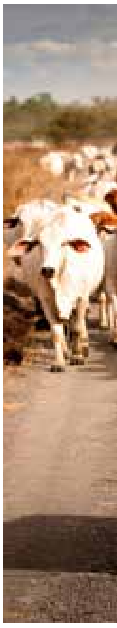
Guide price: €30,000,000

Consolidated Pastoral Co.

The sale of this 400,000-head, 16-station, 13.6 million-acre cattle and cropping farming company, which included 10,000 sq km of natural irrigation, highlighted the international demand for large-scale agricultural investments. We received interest from potential buyers across the globe. Enhancing food security for their home countries was cited by a number as a key motivator.

Guide price: AU$1 billion

sold.



NEW ZEALAND

Mangaheia Station

Opportunities of the scale of this 6,721-acre sheep and cattle farm in the Tolaga Bay area are rare on the east coast of North Island, according to Bayleys, Knight Frank's New Zealand associate. The farm, which has seen significant investment in recent years, holds 22,606 livestock units split 60:40 between sheep and cattle.

For sale by tender

for sale. by tender

Simunovich Olive Estate

The 257-acre estate, 50km from Auckland, is New Zealand's largest commercially run olive plantation with over 30,000 trees that have been yielding progressively larger harvests each year. The property is also home to the renowned Bracu Pavilion function venue and Bracu restaurant, which attract significant numbers of corporate and private guests.

under offer.

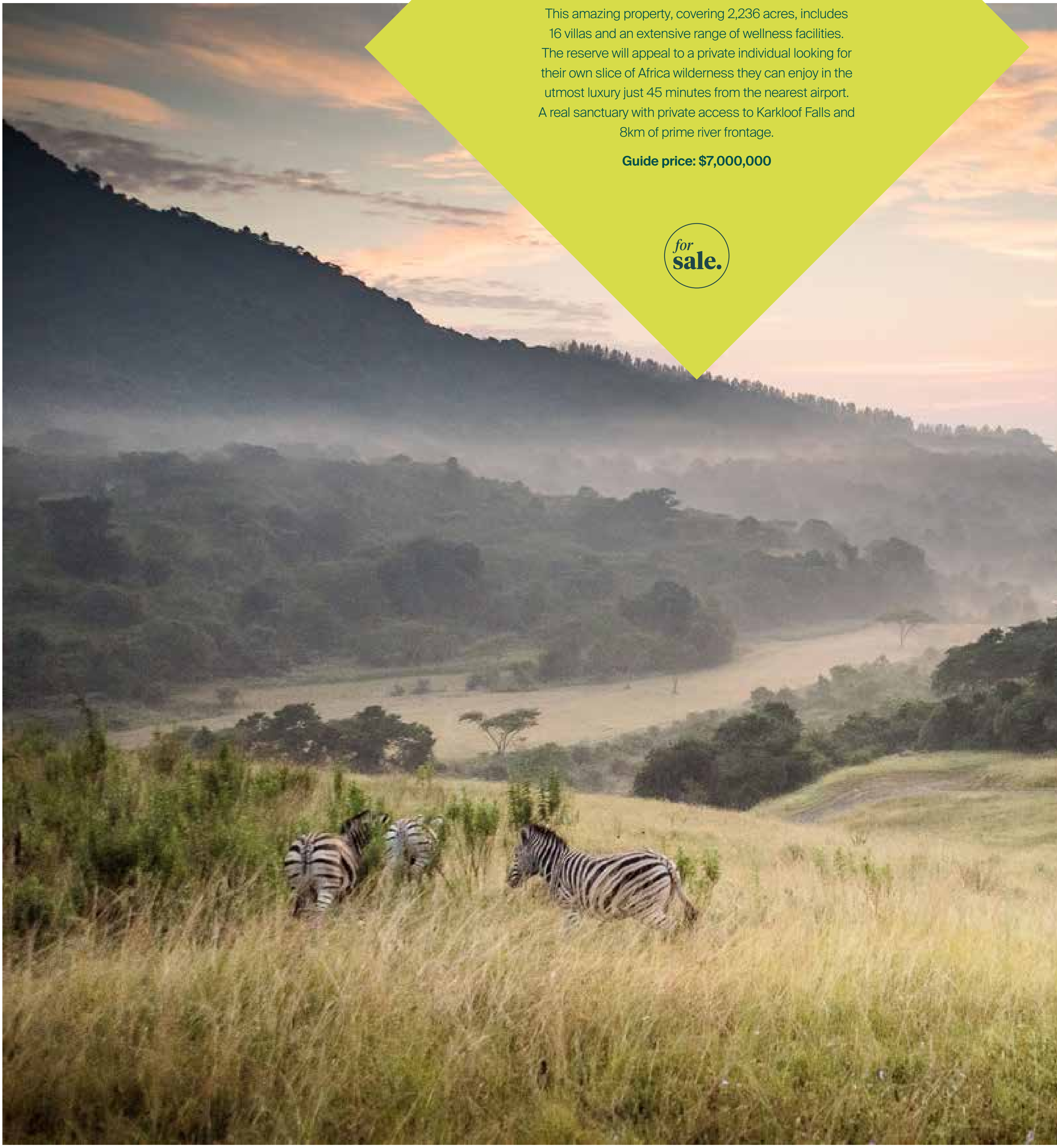
AFRICA

Private game reserve, Pietermaritzburg, South Africa

This amazing property, covering 2,236 acres, includes 16 villas and an extensive range of wellness facilities. The reserve will appeal to a private individual looking for their own slice of Africa wilderness they can enjoy in the utmost luxury just 45 minutes from the nearest airport. A real sanctuary with private access to Karkloof Falls and 8km of prime river frontage.

Guide price: $7,000,000

for sale.



Kalangwa Estates, Chisamba, Zambia

Close to Lusaka, this investment-grade 5,688-acre cropping – soya, maize, potatoes and onions – and livestock unit includes two dams and 20 boreholes that supply an 875-acre centre-pivot irrigation system and a 74-acre microjet irrigation system on a newly planted block of macadamia trees. There are five houses and the farm runs 900 head of cattle.

for sale.

Guide price: $13,500,000

Ask Alice

Alice Huxley, a member of Knight Frank's Rural Valuations & Advisory team, kicks off her new column in The Rural Report by answering some of the common conundrums she and her colleagues are often asked about by clients.

Do I really need a formal RICS 'Red Book' valuation for probate purposes?

Probate can be a very drawn out process and is often rather overwhelming during what is already a very difficult time. Professional advisers always stress the need to think about tax matters well in advance because effective planning requires a holistic approach with input from your accountant, solicitor and a RICS-registered valuer to ensure one can make the best use of the tax reliefs available.

Consideration should also be given to how the property is held and used in order to ensure it is eligible for such reliefs.

Rural estates and farms are generally not straightforward, with multiple types of assets and uses. This is a where a professional valuation becomes a key part of the executor's toolkit. A valuation can help determine not only market value, but the apportionments of value required for claiming reliefs, such as agricultural value.

Should HMRC query the application for probate, they instruct a District Valuer (DV) to assess the values. The presence of a professional valuation report within the application means that the DV is immediately able to understand the context of the valuation and process followed, which should either resolve the query or at least reduce the number of questions – thereby expediting a potentially lengthy process.

The professional valuation can therefore be used as part of the tax-planning process, and then updated to be included in the application for probate. The other benefit of planning ahead means that your estate is in order and your intentions are clear, thus avoiding any potential confusion or conflict. This will help your executors no end.

We are selling our large farmhouse with extensive gardens, stables and paddocks of about 25 acres. I have been told that I may need to pay Capital Gains Tax (CGT). Is this correct?

For many, the disposal of their principal private residence (PPR) will be free from CGT. The relief is available on the gains made on the disposal of the dwelling house and its gardens and grounds, which were used for the occupation and enjoyment of the dwelling house as a residence ('permitted area'). The 'permitted area' accepted by HMRC is up to 0.5 of a hectare (about 1.23 acres).

Any land and property outside the 'permitted area' is subject to CGT. If it is used for agriculture or for business purposes, this generally precludes relief. However, a paddock or an orchard should not necessarily be excluded (unless there is significant business use) and there are instances that may justify a larger 'permitted area' if it can be demonstrated that additional land or buildings are 'required for the reasonable enjoyment of the property'.

The Valuation Office Agency advises that 'enjoyment' simply means possession without contested claims from third parties, however the High Court and tribunals have interpreted this as 'necessary', rather than merely desirable.

It is also important to note that as of 1 April 2020, HMRC requires UK resident individuals (as well as non-resident individuals and companies) to submit CGT returns, and pay any CGT due within 30 days of completion of the sale.

This is a significant change. It is therefore prudent to obtain advice on the likely permitted area achievable and subsequent apportionment of value on which tax will be payable prior to any disposal in order to meet this timescale. Such advice can be updated once the sale price is known.

As a final point, details of the purchase price if post 31 March 1982 or a valuation of the property at 31 March 1982 if acquired prior to that date will also be required.

We are looking at selling our property, a diversified farm with a number of converted buildings that were opted to tax. Is this going to impact on the saleability?

When carrying out new construction works many will often choose to elect to charge VAT, so that they can recover the VAT input tax incurred. The extent can be limited to the specific building, rather than the whole property. Be aware

> "
> ***As of 1 April 2020, HMRC requires you to submit Capital Gains Tax (CGT) returns, and pay any CGT due, within 30 days of completion of a sale***

Members of the Rural Valuations & Advisory Team from left to right: Tom Barrow, Alice Huxley, George Jewell

that following the initial six months – an option to tax can only be revoked after 20 years, except in limited circumstances, for example where the building is demolished.

If the property is being sold as a business, then it should be treated as the transfer of a going concern and therefore VAT should be recoverable.

This changes if the property is in private ownership and is just being sold as an asset. If the property is being purchased by a company, that company can ultimately recover the VAT it has been charged. A private individual, however, cannot generally recover any VAT incurred on their costs. The VAT on costs incurred is not therefore a cashflow problem (as with a business waiting for its tax return), but a direct cost.

Depending on the size of the property, and the area that is opted to tax, it may restrict marketability of the property. It is key to ensure that if you have opted to tax, you are clear about the extent of property that is being opted and obtain an estimate of the apportioned value. This will help purchasers identify the potential VAT liability at the outset, which in turn will reduce complications and delays.

We have spent a lot of money on our equestrian property and now want to sell. But the valuation isn't quite as high as we expected

This is the age-old problem of how to increase the value of one's property without over-capitalising. It is a personal decision for any property owner as to what they spend on enhancement and other works, but costs do not necessarily create enhanced value.

This can be because the works are relatively specific to the owner's personal needs – and therefore can affect the marketability – but usually it is because the cost of enhancement is over and above the increase in market value, particularly when using high-quality materials. Many owners will accept this position if it is their long-term main residence, and the use and enjoyment of new or high-quality facilities is more 'valuable' to them than a profit-making exercise.

However, if a sale is on the horizon then this is not the time to over-capitalise. Here are some options that can add value:

The Basic Fundamentals – These are the elements that can be taken for granted, but if they are not present they affect the functionality of the property. This may not necessarily deter purchasers but may encourage 'negotiation' room on price. For an equestrian property these would include having working field troughs in every paddock, ensuring careful stocking rates to avoid poaching, having safe secure fencing and ensuring good drainage to enable year-round turn out.

Versatility is Key – Try to make specialist facilities as versatile as possible. This can include the building height, layout and design, which may suit your needs, but could also easily be adapted for potential other uses.

Presentation – This is the easiest way to create a good impression. Even the basics of a tidy and organised yard with freshly mown lawns will be received far more positively than a haphazard set up. Regular maintenance, such as a programme of redecoration to ensure the property is kept in good condition, will avoid a reduction in value to account for repairs.

Size Matters – The ratio between facilities and land available is very important, particularly for equestrian properties. If the property is short on acreage then, if possible, consider acquisition of more land in order to widen the appeal. To purchase neighbouring land you may well pay a premium over market value, but such a premium may well help the overall sale with provision of an enlarged acreage.

Statutory Consents – Makes sure all necessary permissions for buildings and uses are in place or, if not, consider a timely application for a Certificate of Lawfulness. Additionally you could consider if a relatively inexpensive planning application for a new facility may add value.

If you would like to find out more about the matters discussed or any other valuation issues please contact Alice Huxley, alice.huxley@knightfrank.com

Working for you

Insight and advice to help landowners add value to their properties and businesses

In this section

The Five Cs

The Covid-19 crisis is spurring many estates to reassess their long-term strategic plans. Knight Frank's Head of Agri Consultancy Tom Heathcote highlights five themes that should play a key role in future thinking

It was Winston Churchill who coined the phrase never let a good crisis go to waste, and the results of our Rural Sentiment Survey (page 14) show a number of rural businesses have used the time forced upon them by the current pandemic to consider the best way forward.

Of course, every estate or farm is different and I can't offer a simple blueprint that guarantees a successful future for any one business. For some it may be diversification – although Covid-19 has shown the danger of over-reliance on certain income streams – for others it might be doing more of what you already do.

But there are five underlying themes, which we have named the 'Five Cs' – Carbon, (Natural) Capital, Community, Communication and Cooperation – that I believe all businesses should consider incorporating into their future plans. Before I discuss them in more detail and explain why we have chosen them, it's worth remembering that even before Covid-19 struck, our industry was facing significant upheaval.

Brexit, climate change and shifting consumer trends, albeit operating on slightly different timetables, but each with the power to disrupt or even destroy existing business models, should have been top of mind for all farms and estates. If they've somehow slipped down the agenda, now is the time to focus on them.

Some of our Five Cs will undoubtedly overlap. When you think about Carbon, for example, (Natural) Capital won't be far behind. Likewise, cooperation, community and communication will often be closely linked. And some will obviously be more relevant to some businesses than others, but taking the time to consider each in turn will help create your own road map and inform decision making.

Over the following pages, I have also curated a selection of articles with the help of my colleagues that add some flavour to the concept of the Five Cs. From a future with meat but no animals, to an interview with the Estate Director at Blenheim, which has created its own forward-thinking five-point plan, I hope you find the articles useful and thought provoking.

01.

CARBON

This is arguably the most esoteric of our Five Cs. But this one element is likely to have more impact on the long-term future of farming than anything else, so I thought it was important to include it. As Andrew Shirley discusses with Dieter Helm at the beginning of this report, reducing carbon emissions and increasing sequestration is already underpinning government policy. The effect of this on how we manage land will only grow in significance, particularly as it will underpin new additional streams of income. But better carbon management, in my view, should be at the heart of any land-based business regardless of climate change policy and support payments. Retaining soil carbon is critical to productivity, one of the reasons I am passionate about regenerative agriculture, which we look at in more detail on page 40.

02.

(NATURAL) CAPITAL

This is one of the topics of the moment. A lot of my clients are talking about it – and the figures bandied about are huge. The ONS reckons the UK's stock of natural capital is worth around £1 trillion – but how to make your own natural capital work harder is not always clear. The first step is to work out and measure what you have already. You can't sell something that you're not aware you have in the first place. Some schemes will reward you for producing more natural capital, by increasing the carbon content of your soil for example, so you need to know your starting point. The next step is to identify a market. In some cases, such as bio-diversity offsetting and the Woodland Carbon Scheme, markets already exist. But in other cases, like using your woodland to deliver mental health benefits, the markets could be less clearly signposted. Building better community links as discussed in point 04, will be extremely helpful.

03.

COOPERATION

Many of the biggest benefits and potential income streams from the enhanced use of natural capital will come at the landscape level. A group of farmers and estate owners will be able to deliver more substantial outcomes by working together, whether that's habitat protection or flood mitigation, than on their own. I foresee that an increasing proportion of the money the government assigns to environmental measures will be targeted at these kind of cooperative schemes. First, because the results will be easier to communicate (and the costs easier to justify) to the public. And second, because they will be much simpler to administer. Those in the farming sector are renowned for their independence, but post-Brexit working more closely together will become increasingly important.

04.

COMMUNITY

Many estates or other rural land owners have been at the hearts of their communities for generations and many have used the Covid-19 crisis to strengthen those links even further, but the 'public goods for public money' mantra that will underpin much of the future financial support for agriculture can only increase scrutiny of what happens in the countryside. It wasn't long ago that some commentators, daring to dream that the UK would fall en-masse under the spell of Jeremy Corbyn's vision of a socialist revival, were publicly talking about the nationalisation of property that didn't fulfil certain ideals. That moment has passed for now, but who is to say it won't return – we live in strange times. But that aside, I can't think of any business that regrets getting more involved with its local community. Open Farm Sunday, for example, has contributed immensely to the public's understanding of what goes on beyond the farm gate. Our focus on the Blenheim Estate on page 46 highlights some of the benefits.

05.

COMMUNICATION

From my experience poor communication is at the root of many of the issues that plague rural businesses. I'm not talking about failing to get to grips with social media, which we look at on page 42, but something more intrinsic. Many of the landlord-tenant disputes that our Rural Asset Management team deals with come down to people not speaking to each other. Succession is often another crunch point that could be more easily dealt with if the parties involved talked more openly together. Consider your business as being at the centre of a web linking it to suppliers, customers, tenants, lenders, advisors, stakeholders and other interested parties. Which of those links could work more efficiently, saving you time and often money? But from a wider industry perspective the most important conversation we need to have over the coming years is with the public. Food production is at a crossroads and if we are going to ask the consumer to buy British we need to present a compelling case.

Back to the future

The Rural Report investigates two contrasting ways to cut agriculture's carbon emissions. One advocates a return to a more traditional way of farming, the other switches fields for the laboratory

Route 1 - Regenerative agriculture

Hutchinsons' Ed Brown is one of just two bioagriecologists in the UK. He explains why this method of farming can help bring down emissions and offers some carbon-cutting tips

Regenerative agriculture isn't always mentioned in a positive light, but I think the more negative views tend to come from those who haven't yet understood it fully.

If I was to ask a client if they would like to farm in a way that produces high quality, nutrient dense food and feed, profitably, while enhancing the soil, the environment and reducing their reliance on expensive and increasingly ineffective inputs, I should imagine the response in most cases would be "when do we start?".

In many ways this has just described regenerative agriculture. And the list of benefits goes on. For those farms and estates that fully embrace the concept, the possibilities are endless: community engagement, tourism opportunities, wildlife, industry research and scientific advances, carbon trading and so on.

And given the changes to government policy, removal of subsidies and increasingly volatile markets and weather, do we even have a choice?

In terms of carbon, processes are already being established to allow trading or offsetting to take place. These are predominantly focussed on tree planting at present, but I am anticipating a market to develop for many more landowners to trade carbon, having set their business up to be carbon negative through their farming practices.

It is an exciting opportunity, but there are two caveats. First, we need to make sure we can accurately measure a farm's carbon sequestration potential and have confidence in it if we are to set up a valuable trading system off the back of it. Second, turning your farming business carbon negative is harder than it sounds. The following points are some suggestions to get you started.

1. **Reduce tillage operations** and if we are being realistic about achieving our carbon goals, eliminate it all together. It can be an emotive subject but let's be very clear, tillage burns fuel, releases soil carbon and is rarely of any direct benefit to soil health.

2. **Reduce manufactured nitrogen fertiliser use.** Nitrogen fertiliser has a huge carbon footprint so implementing ways to use it more efficiently and reduce how much you apply is very important. The air we breathe contains 78% nitrogen, yet we spend so much time and money manufacturing and applying vast quantities to our crops, which is, at best, 50% efficient.

3. **Employ every available tactic to increase soil organic matter.** Organic matter within the soil performs a large number of beneficial functions but perhaps more importantly in this

context, for every 0.1% increase in soil organic matter per hectare, an additional 8.9 tonnes of CO_2 is sequestered.

4. **Introduce plant diversity,** be it in an arable or livestock system. The soil, like us humans, prefers a varied diet to be healthy. A healthier soil supports a healthier plant which is better able to harvest the sun's energy, and through the process of photosynthesis, convert that energy into carbon which it pumps into the soil. If possible, use C4 plants such as sorghum and millet as they have the ability to sequester much higher levels of carbon than C3 plants.

5. **Integrate livestock into arable businesses.** This could mean enterprise stacking on the same farming unit or of course working in partnership with neighbouring livestock businesses. There are opportunities for grazing cover crops and/or short to medium-term grass or herbal leys. With livestock comes manure which returns varying levels of nutrients and organic matter to the soil, reducing the need for manufactured fertiliser. It is, however, important to consider the contribution of said livestock to the carbon footprint of the whole business and some units have much less impact than others. The livestock sector, just like arable, has many questions to answer about the direction it takes in the future and if we are serious about our soil, carbon and environmental ambitions, many of the current practices will need a significant overhaul.

Read Ed's top ten tips at knightfrank.co.uk/ruralreport

Route 2 – 'Cultivated' meat


Anthony Chow and Laura Turner of Agronomics, an investment company targeting the 'cultivated' meat industry, explain why they think this is the future

Animal agriculture accounts for at least 14.5% of all anthropogenic greenhouse gas emissions. While there are many small tweaks that can be made to traditional agriculture to reduce these emissions, a step change in protein production is necessary to circumvent greater environmental damage on the planet.

Cultivated meat provides that required leap: this is meat that is grown directly from cells in bioreactors, without the slaughter of the animal, and not to be mistaken for the plant-based products that exist on the market today, such as those sold by Beyond Meat and Impossible Foods.

There is actually a Harvard study that cites 90 reasons why cultivated meat is advantageous, but we would say the main argument, or driver, is that our food production system cannot support the projected world population growth to 9.7 billion by 2050. This means the global food supply will need to increase by 70%.

> “
> *The first cultivated meat products to be approved by the US regulatory bodies, will be as early as 2021*

Given that in the UK, the utilised agricultural area covers about 22 million acres, or 70% of the total land, the numbers don't add up. It shows we need to adopt radical changes to how we provide our daily subsistence, using methods that have a minimal land, energy and environmental impact, as well as alleviating all animal welfare concerns, and the possibility of producing nutritionally superior meat, with no saturated fat or cholesterol. It would certainly help tackle obesity, a problem that affects a third of the UK's population.

A steak is composed of many different cell types – long muscle fibres, fat cells to give it that juicy flavour and connective tissue providing the structure. Companies working on producing the cell-grown equivalents are looking to match the profile of conventional meat, and examine the nutritional content to ensure the organoleptic quality of eating meat is maintained.

A sirloin is probably further down the pipeline than an 'unstructured' cell-based hamburger; however, it is anticipated that the first cultivated meat products to be approved by US regulatory bodies, will be as early as 2021.

These initial products will be offered on a small scale launch, at a premium to the conventional meat products we consume today. But, by 2030, as economies of scale kick in, these products will eventually be at cost parity (or potentially cheaper) than conventional products and with that, will gain mass market traction.

However, before these products are approved, there are some key challenges that companies in the sector are looking to overcome. The first technical obstacle is to reduce the cost of the growth medium, the nutrient 'soup' that the cells are grown in, down to a price that substantially lowers the cost of production.

This is predominantly an issue because all inputs thus far have been used for pharma-grade purposes, and therefore need to be tailored to be cheap enough for food-grade use. Second, achieving scale means adapting the cell mass to operate in bioreactors that are thousands of litres in size, not millilitres. This requires tweaking conditions and cell adaptation.

The universe of cultivated meat remains small, with just over 30 companies globally, but the prize is enormous: these companies will be able to supply vast quantities of meat, millions of tonnes a year, in an efficient process that does not involve the slaughter of animals, the heavy use of antibiotics or vast pastures of land.

The meat and seafood market is predicted to hit US$ 7 trillion by 2025 – cultivated meat must be used to meet this demand.

Shout it out

The agricultural industry can often be misunderstood by the public, but it has the tools to try and change that. Journalist and communications expert Caroline Stocks looks at how social media can help food producers and estate owners foster better relationships and bolster their bottom line

From claims about livestock's impact on climate change to concerns that pesticides destroy wildlife, agriculture sometimes struggles with its public image.

While in the past individual farmers might have felt powerless against campaign groups spreading malicious tales, more and more producers are working to set the record straight about what's happening on British farms – and telling the public how their food is produced in the process.

Social media platforms such as Twitter, Facebook, YouTube and Instagram are giving farmers the opportunity to have direct conversations with people who might have never stepped foot on a farm before.

And with potential audiences of millions (Twitter alone has 330 million active users worldwide, 13.7 million of which are in the UK, while Facebook's UK audience is almost 45 million), it is enabling producers to give a voice to the industry, while also bringing benefits to their own businesses too.

"I joined social media, Twitter especially, to be nosey," says Herefordshire arable farmer Ally Hunter Blair. "I found it was a good way to ask other farmers questions and search for answers.

"But then I found I was talking to more and more members of the public about our farm, and things took off from there."

Since joining the micro-blogging site Mr Hunter Blair has amassed some 11,400 followers, with whom he shares a daily mixture of photos and commentary about farm activities, drone footage, and his infamous 'Combine Karaoke' videos.

Ally Hunter Blair

Will Evans

Alongside his more practical farming footage, the karaoke videos – showing him mime to pop songs while in his combine – have amassed more than a quarter of a million views across Twitter, YouTube and Facebook.

His social media exploits have also led him to speaking at events, and bumped up bookings for his farm stay – a 'glamping' experience in a converted horse box called Bertha (although the coronavirus has put paid to that diversification project for now).

He's even starred in a farm reality-TV show, Born Mucky, after a production company found him through Twitter.

"Because of the things I've been doing on TV my following has increased, and it is fairly evenly split between farmers and non farmers," Mr Hunter Blair says.

"I find it's a really nice way to engage with the general public, as often people will ask a question rather than jumping straight in to criticise."

On the whole, Mr Hunter Blair says people generally enjoy hearing the story behind food, and he enjoys talking to people about it too.

"There are trolls, because not everyone is going to agree with what you have to say," he adds. "If it's rude or horrible I just ignore it. If it's a discussion about why we've done something, then I'll try to engage."

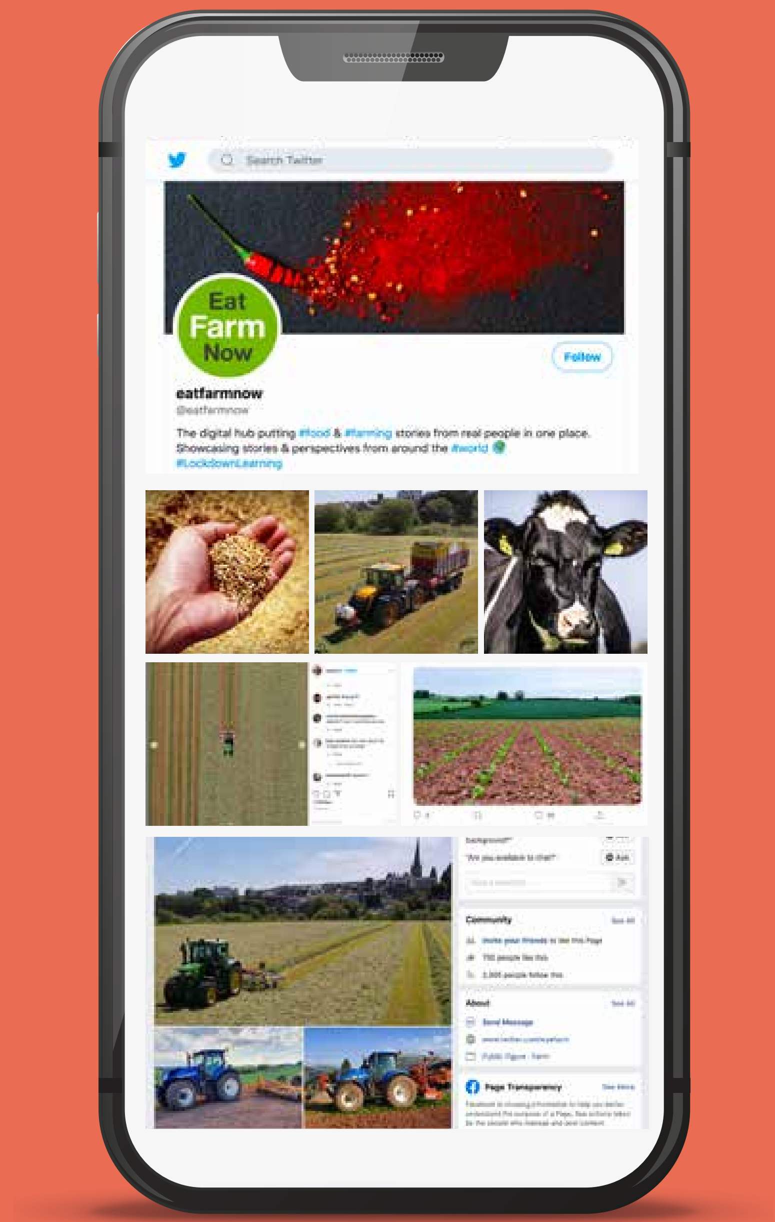
North Wales beef, cereal and egg producer Will Evans is similarly positive about the benefits of social media.

His efforts to share stories about agriculture has seen him build up a Twitter audience of 17,000 people, launch his own podcast, Rock & Roll Farming, and write a blog.

He's also become a columnist, and helped create Eat Farm Now, a website that collates stories about farming from around the world and has expanded into providing educational content during the coronavirus lockdown.

"People have never been as interested in where their food comes from as they are now, and that gives farmers a tremendous opportunity to connect with consumers on a personal level," he says.

"Social media has allowed me to do it in an easy way, sharing videos, pictures and updates from our farm. It's great to see people's responses to what we're doing and answer questions."



TOP 5 TIPS
for social media

Show your personality. Whether it's a photo of what you're doing, a link to an interesting article, or an opinion, if you've got something meaningful to say, don't be afraid to share.

Engage. Social media is about conversations and building relationships. Liking and sharing posts, asking questions and responding to other people's content helps audiences get to know and trust you, making it more likely that they'll respond to your posts.

Pick a platform, and do it well. It can be tempting to post everywhere – Twitter, LinkedIn, Facebook, Instagram, Snapchat – but it's better to choose one or two and do them well than trying to do everything badly. Quality wins over quantity.

Channel your inner film director. YouTube is the second-largest search engine after Google. Posting a quick video of something that's happening on your farm is a great way to let people discover what's happening in UK agriculture.

Don't get drawn into arguments. Not everyone will share your opinions. While a sensible discussion to educate and inform is great, getting caught in an endless argument with someone whose opinion you'll never change isn't. Know when to stop, take a step back, and block people if necessary.

As well as enabling Mr Evans to connect with global consumers and producers, social media has created opportunities he wouldn't have had otherwise.

"I've spoken at conferences in the UK and abroad, I host other podcasts, and I got asked to write for *Farmers Weekly* on the back of my blog.

"And then Eat Farm Now came about because I was seeing so much great farming content across all the different social media platforms, and I thought it would be great if it was all together in the same place. That led to 'Lockdown Learning', a resource for kids to learn about farming during the pandemic – something I'm really proud of.

"I didn't plan for any of this, it's all just happened, but it's been great."

Jonathan Roberts, CLA Director of External Affairs, explains why embracing all types of communication is vital for building local support for estates

There are lots of estates out there doing good and important work for their communities and the environment. But too often they're not telling anyone about it, and as a result people's perceptions of landowners is not as favourable as it should be.

Estate owners and managers are embedded in their community, and they need to learn ways to maximise that. Social media is one way, but in many ways it goes beyond that.

People who work on and manage estates are very knowledgeable, but often members of the public know very little, and in the absence of knowledge myths start materialising. The big risk when a false narrative kicks in is that it manifests into public policy.

Just talking about what you are doing and why – whether that's on social media or through a local newspaper or newsletter – really makes a difference.

Ultimately, it's getting information out there that's important, not necessarily the way you do it.

Giving something back

The Covid-19 outbreak has highlighted the vital role that farms and estates can play in their local and wider communities. James Thompson, Head of Consultancy at Knight Frank, offers a personal perspective

I am lucky enough to live in Wye, Kent, where there was a strong sense of community among the local landowners and farmers even before the virus struck.

A great example is the Wye Community Farm project run by Richard Boden that was formed following the closure of the agricultural college here 12 or so years ago. In addition to occupying part of the Wye National Nature Reserve, 15 landowners provide land rent free – often unproductive, smaller fields that are inconvenient to manage – for the farm, which grazes a small herd of rare-breed cattle and a flock of 60 ewes.

The project creates local food for local people and has a strong educational component involving school children and even the probation service. Those supplying the land benefit because it is kept in good order, and many prefer it to the other option which is letting it out as pony paddocks.

Since the advent of the crisis, however, a large number of local food and farming businesses, including Perry Court Farm and Bank Farm have become even more involved with helping to keep the community, in particular the elderly and vulnerable, fed.

For my part, I've distributed milling wheat from our family farm to residents to make their own bread. We were pleasantly surprised that a major newspaper even noticed our efforts. The headline was: The Kentish village fighting Covid with kindness.

Community is one of our Five Cs and my experience shows how rewarding it can be on a personal level. But at a time when the future of farming and food security in the UK is uncertain due to Brexit, building closer links to your local community and helping them appreciate the quality of local food can only make sense.

I know from my colleagues that what I've seen in Wye has been replicated across the country. The two case studies on these pages typify some of the efforts and creative thinking from farmers and estate owners.

> *"The benefits of bringing people back onto the land, when otherwise their lives have been put on hold, will be huge – this can be a time to reconnect with where our food comes from, and how it is grown*
>
> David Walston

James Thompson's milling wheat

WORKING FOR YOU

Case study: CoVeg

The images of empty supermarket shelves that dominated the media at the beginning of the Covid-19 crisis have spurred another pandemic – a surge in people wanting to 'grow their own' to combat future food shortages. For Cambridgeshire farmer David Walston, it was the nudge he needed to put a community-gardening plan – CoVeg – he'd been mulling over for a while into action.

Mr Walston created two 1,000 square-metre plots on his 2,220-acre farm and invited local villagers to get involved. Over 140 people from five surrounding villages signed up to the scheme, which sees the plots tended communally rather than divided into the separate areas you find on conventional allotments. Mr Walston provides ongoing help with his machinery when required.

Other local companies like Kings Seeds have got involved and three other local farmers are also considering donating some of their land.

thriplow-farms.co.uk coveg.co.uk

Measuring out the CoVeg plots

Case study: The Grosvenor Estate

"It has long been the purpose of our activities to deliver lasting commercial and social benefit, contributing to the economic, social and environmental wellbeing of the communities we are part of," says Nicholas Dobbs, Rural Estates' Director.

"But the need to work collaboratively with, and to support, the communities we are part of has never been greater than during the coronavirus pandemic and all parts of the estate are working to offer practical support, and in many cases a lifeline, to help businesses and individuals overcome the present situation."

Some of the of rural initiatives include:

- Offering rent deferrals and rent-free arrangements to independent and vulnerable retail tenants and other commercial businesses, including farms, to help with cashflow concerns.
- Helping suppliers with cashflow by paying them in advance and as quickly as possible for works they are completing, providing a life-line to help them overcome the current situation, such as suppliers who are providing important repairs and inspections to ensure the continued safety and comfort of tenants in their homes.
- A foodbank supporting families in need in the north-west Highlands received a further boost after a freezer full of venison was donated by the Reay Forest Estate, part of the Grosvenor Estate. The foodbank was established thanks to a grant from the Westminster Foundation, an independent organisation representing the charitable activity of The Duke of Westminster and Grosvenor businesses.
- Helping school children without broadband in rural locations access the internet to enable remote learning.
- Facilitating 'safe distance' home delivery of free meals to children impacted by school closures as well as assisting with food deliveries to self-isolating households from local food shops in our communities.
- When a community honesty box business selling essential groceries in Abbeystead, Lancashire, needed to expand to support increasing demand from vulnerable and isolating residents through the pandemic, the estate helped by building and installing a bespoke shed in just two days.

Taking the long view

The Blenheim Estate has created a ground-breaking plan that steers the future direction of its 12,000 acres of land. Estate Director Roy Cox discusses the thinking behind it with Andrew Shirley

Roy Cox

If you wanted to build a model to exemplify our Five Cs approach to strategic estate planning (page 38), you couldn't really ask for a better example than the Blenheim Estate in Oxfordshire.

"As a major legacy land-owner, a multi-million pound business and a world-renowned visitor attraction we have both a significant responsibility to help, and an opportunity to make a real difference," points out Dominic Hare, Blenheim's CEO.

Across the whole estate, which includes the iconic Palace, the aim is to become **carbon** neutral by 2025. Working with the **community** is also at the heart of everything it does. "We want to be the lifeblood of the local community and to enhance the lives of local people. If Oxfordshire does not thrive, then neither can we," adds Mr Hare.

What really catches my eye, though, is a short film titled 'Always Growing our Legacy' on the 'Land' section of the estate's website. Beautifully shot, it **communicates** powerfully the five initiatives that Estate Director Roy Cox and his team have created to make the most of the natural **capital** and resources across the estate.

Even the names given to each of the initiatives – Grass Routes, Natural Health Service, Natural Balance, Landed Gently and Acorns & Oaks – have been crafted to resonate with a wider audience beyond the estate's peers and professional advisers.

"Land is something common to many estates and because of that their roots are embedded in their local communities in a way that many other businesses simply are not. We wanted a fresh approach to land that would create a sense of intrigue beyond our normal audiences and breathe life into the role of land once again," explains Roy.

In terms of building a sense of intrigue it works; I'm particularly fascinated by the Natural Health Service. In fact, it turns out to be exactly what it says on the tin and is a very innovative way of making use of Blenheim's abundant natural capital.

"By joining the natural resources of our land with the health service, our woodlands, green spaces and fresh air can begin to be prescribed as the most natural of health solutions. Social prescribing – as it has become known – is increasingly a government priority," says Roy.

"Society is living longer and we are learning more about long-term health conditions, which in our area particularly include mental wellbeing and loneliness. GP's surgeries are struggling to cope when, as a nation, 20% of consultations are for matters of housing, employment and relationship breakdowns. As a landed estate, a long-term holder of property and a visitor attraction, we are uniquely placed to respond."

By **cooperating** with local social enterprise groups and charities such as Aspire, which helps vulnerable people to find employment and housing, the estate is able to provide classes and activities for people facing multiple challenges, helping them move forward with their lives.

"One of our key goals is to support projects which enhance the health and wellbeing of our communities which are vital in developing a 'social licence to operate'," enthuses Roy.

Grass Routes is all about the long term canvass using the estate to help connect communities in a more efficient and

> *We want to go further, to demonstrate carbon-negative land management*

environmentally friendly way. With a series of permissive paths and cycle ways linking the villages around the estate it also helps shape future development away from continued sprawl.

"Our neighbouring towns and villages, within which we are a major holder of property, are beautiful places, but are seen largely in isolation. Connectivity is poor; links to railways are haphazard, cycle networks are inconsistent and footpaths do not join up. As a result, four out of five journeys in our area are by car. In a world where climate change is centre stage improved connectivity will not only be key to the property we hold, but also that which we build," Roy says.

Of the five initiatives Natural Balance and Landed Gently are perhaps the most relatable for smaller estates that can't offer the same scale and levels of public access as Blenheim, but will be looking for new sources of income as the Basic Payment Scheme is gradually phased out.

"Natural Balance is a new model of valuing our natural capital; an innovative way to attribute the benefits of good air, water, soil, woodland, green spaces and biodiversity to the total ecosystem, and so to generate new income streams and promote the best long-term decisions. We want to be the first generation to truly leave this land in a better state than it was found. We are already seeing these principles work their way into legislation and this is how future generations will measure us," Roy explains.

Landed Gently takes things further and is more ambitious. "This is the long-term change in a world where many are looking from the outside at landed estates. For many reasons the way we manage land cannot continue in perpetuity – it will deplete one of our greatest assets. We will use the lessons of natural capital to first become carbon-neutral. Then

Creating new natural capital

The Blenheim Estate

we want to go further, to demonstrate carbon-negative land management," he says.

"There is no commonly agreed 'one best' sustainable practice amongst farming methods such as regenerative, agroforestry, and organic. We are working with partners who can guide us on this journey, and together we will find the best mix, or model, that proves effective for our long-term asset," Roy adds.

Given the food-chain issues seen during the Covid-19 crisis and a growing demand for local food, Acorns & Oaks seems particularly pertinent at the current time.

"Blenheim stands for three centuries of caring for the land. As we have shown with our bottled spring water, we can do more to translate that legacy of care into great tasting local produce, that also spurs local business vitality," emphasises Roy.

"By partnering with producers and artisans who share our values – not putting labels on jam jars ourselves – we can bring our unique provenance from the land to the larder. Game, botanicals, grains, even grapes can become charcuterie, gin, bread, wine and beer."

Some might see the five initiatives as philanthropic, but Roy stresses that safeguarding the future of Blenheim lies at their core. "This is not a social experiment. When we get these right, this part of Oxfordshire becomes a destination with opportunities to live, work and prosper, all three of which are vital to any landed estate as an employer, holder of property or rooted in its local community. No more so is that evident than during the current crisis."

All things that Knight Frank hopes our own Five Cs will also deliver.

Need to know

From tenancy reform to renewable energy, Knight Frank's rural property experts pick out some of the important challenges and opportunities facing their clients at the moment

Rural landowners have grappled with unprecedented change in recent years, from the uncertainty over Britain's future relationship with the EU, to the ramifications of Covid-19 for supply chains and the wider economy.

Beneath these shifting geopolitical sands lie a host of regulatory, legal and financial transformations specific to the rural economy that, together, are likely to significantly alter the way land is owned and managed.

They include new regulations brought about by the growing importance of ESG (Environment, Social, Governance), the rise of compulsory purchase as a result of mega-projects like High Speed 2 (HS2), and changes to legislation in an attempt to improve productivity on UK farms. Many more are explored below.

Knight Frank's team of rural property experts have backgrounds spanning surveying, asset management, finance and more. Here, they guide readers of *The Rural Report* through a selection of the issues that will have the greatest influence on landowner decision-making during 2020 and beyond.

> *"From April this year, you cannot continue to let properties to existing tenants if your property is rated F or G*
>
> **1.**

1. The regulatory impact of the green agenda

The year will herald increased complexity for landlords as the government pushes to cut greenhouse gas emissions and bolster safety standards for tenants.

All landlords have been required to obtain an Energy Performance Certificate (EPC) before they can let out a property since 2013, with ratings from A for the best performing properties, to G. From April this year, you cannot continue to let properties to existing tenants if your property is rated F or G.

This presents particular challenges for property owners in rural locations where period homes are common. Recommendations for improvements can range from installing a new boiler to entirely recladding homes.

Meanwhile, from July all landlords must ensure electrical installation inspections and testing are carried out for all new tenancies. From April 2021 this will apply to existing tenancies.

Both overhauls can mean increased costs for landlords, but with the right advice the process can be managed. Draft EPCs are easily obtained and exemptions are common. It's worth being proactive and getting the right advice about your property.

Kathryn Brown, Rural Asset Management

2. Compensation and the rise of the 'mega-project'

It's no secret that the prime minister has an affinity for large-scale infrastructure like HS2, which can have transformative effects on both cities and rural locations.

Though perhaps not to the same scale, it's likely that large infrastructure projects will become a staple for this government, though mega-projects, such as a third runway at Heathrow, are coming under increasing scrutiny from climate campaigners who are challenging them via the courts. Land, property and business owners will be affected by projects and, as a result, are likely to be entitled to compensation.

When a threat to your property becomes apparent, take the time and seek advice to establish a strategy for compensation. If you were not planning to sell immediately, any threat should not push you to sell. Large projects take many years to reach the construction phase. In the meantime, don't give up on maintenance and updating. Your property, if acquired by the project, will be valued in the condition in which it is presented.

Tim Broomhead, Compulsory Purchase and Compensation

3. Lending amid an outbreak

The outbreak of Covid-19 caused significant operational problems for all lenders, though none more so than the high street lenders, as they grappled with the shutdown of international-based call centres and an influx of calls from customers seeking mortgage holidays.

The private banks were more able to adapt, and we saw that most in the rural market. Private banks have gained a huge appetite to be working in the rural field, and their pricing is reflective of that.

We anticipate rising levels of distressed debt in rural businesses as the effects of the virus bite. The quality of a business plan can make all the difference between an application for funds being declined or accepted, so it's wise to talk to your broker before proceeding.

Rates are among the lowest they've ever been, with ten year fixed money at 2.6%. Get in touch with Knight Frank Finance to see what's possible.

Rachel Barnett, Knight Frank Finance

4. Succession in a new age

The government included agricultural tenancy reforms in the Agricultural Tenancy Bill going through parliament, bringing significant change for landowners with tenants occupying under the Agricultural Holdings Act (AHA) legislation.

Arguably, the most significant reform is the removal of the 65 age cap at which AHA tenants can trigger a succession. The move to abolish the cap is broadly positive for the industry, enabling new talent from this generation to drive farming forward. It may, however, bring forward complications for landlords and future succession tenants alike, where working relationships may not yet have developed.

The reforms also water down restrictive clauses, bringing further challenges for AHA landlords. The restrictive clauses that have historically handed landowners some control over the business conducted by their tenants look set to no longer be as strong as they were, and subject to arbitration.

All of this reinforces the need for landlords and tenants to be in close contact.

No two farms are alike, so get in touch to find out what it all means for you.

James Shepherd, Rural Asset Management

5. From the land to the cloud

The rural industry is steeped in tradition, refining and improving centuries-old skills and techniques as the decades tick by. That process is extending to accounting, as the old 'big red books' with handwritten numbers

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> ***HMRC now requires VAT returns to be submitted using compatible software that links directly with the government, but reasons to go digital extend beyond necessity***
>
> **5.**

give way to digital software and cloud-based bookkeeping tailored to farmers and estates.

HMRC now requires VAT returns to be submitted using compatible software that links directly with the government, but reasons to go digital extend beyond necessity. Not only are the new methods more accurate, clients can also access their records from moment to moment, adding unparalleled transparency. The move comes at an opportune moment, as many landowners diversify into a greater array of sectors such as wine production.

Knight Frank's specialist Accounts team can provide advice and support on the introduction of digital and integrated software for your business.

Elin Jones, Rural Client Accounting

6. Renters reform to tip the balance

The Queen's speech of December 2019 introduced a new 'Renters Reform Bill' that will alter the relationship between residential landlords and tenants.

Proposals include the abolition of what are known as 'no-fault' Section 21 evictions, though the bill could also give landlords rights to gain possession of their properties through the courts 'where there is legitimate need', with promises to speed up court proceedings where possible.

Grounds for regaining possession could be non-payment of rent or a landlord seeking to refurbish or sell a property, though thorough evidence would need to be provided.

This would mean greater risk for landlords and some rental properties may be taken off the market as a result.

Knight Frank can steer landowners through the transition period by reviewing portfolios of rental properties to assess what's possible, whether that's disposals or new management solutions.

Chris Terrett, Rural Asset Management

7. Agriculture and the woodland resurgence

The agriculture industry and the role it can play in alleviating the climate crisis is becoming a central pillar of environmental debate. The industry has become a lightning rod for criticism and as a result, the way people farm and manage land is likely to change.

This comes as agricultural subsidies are in a state of flux, and it's increasingly likely that farmers and rural landowners will see benefits for providing environmental solutions to the wider community. This includes a drive to plant more trees, and farmers with marginal land could see significant uplifts in profitability through tree planting.

In addition, forestry already has a raft of tax benefits. All income from timber sales is exempt from income tax and there are various inheritance and capital gains tax benefits in relation to planting and managing

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woodland. Meanwhile demand for timber far outstrips supply.

The subsidy regime is in a state of transition as the UK leaves the EU. To assess your options, speak to our forestry team.

Edward Holloway, Rural Asset Management

8. The taxman calls time on the grazing licence

Rural landowners' reliance on grazing licences is likely to fall following the case of Charnley and another v HMRC, which makes it easier than ever for HMRC to challenge grazing arrangements.

Under the case, a Mr Gill allowed a number of other farmers to graze their livestock on his land through annual grazing licences. When he died in 2013, HMRC said it was willing to grant agricultural property relief (APR) from inheritance tax on the land but on the condition of ownership, rather than occupation.

However, his estate's claim for APR to also apply to his farmhouse, brick barn and other outbuildings was rejected by HMRC.

The case was eventually reversed on appeal, but it's becoming increasingly complex for landowners to remain eligible for agricultural property relief – the grazing licence is no longer a reliable way to maintain a trading status.

Instead, landowners should consider the use of livestock joint ventures, which are a far more robust way of demonstrating trading status. It's a little more work, but widespread assumptions that it's a significant drain on time are wide of the mark, particularly when Knight Frank is able to run and administer livestock joint ventures and take care of the paperwork and accounting.

This is an evolving situation, so we recommend landowners take advice.

Tom Heathcote, Agri-Consultancy

9. Welsh landlords' and tenants' obligations climb

In November 2019, the responsibilities of both landlords and tenants of many agricultural tenancies in Wales changed when a new set of repairing and insurance clauses for buildings and fixed equipment came into force. The new measures broadly mirror English regulations and apply automatically to many of the tenancies governed by the Agricultural Holdings Act 1986. In certain circumstances, farm business tenancies may also be affected.

Now, the list of items falling within landlord obligations has been expanded to include, amongst others, the repair and replacement of electrical systems. Tenants also gain more responsibilities, including fixed equipment generating heating and power, vehicle fuel tanks and slurry, silage and effluent systems.

To understand if your obligations have changed and to address the implications in greater detail, please get in touch.

Edward Holloway, Rural Asset Management

10. Mineral water on tap

Almost half of the world's population will be living in areas of high water stress by 2030, according to the UN. Technology to become self-sufficient is more accessible than ever before, as ultra-clean water with a high mineral content is now available via boreholes.

Boreholes can range in depth enormously but typically are between 20 and 50 metres. They extract water directly from the aquifer deep in the ground, that once harvested and treated, provide an excellent source of high quality water for a variety of uses.

It's worth undertaking feasibility assessments to better understand where the optimum locations for extraction will be. Knight Frank can conduct these assessments, along with managing the competitive tender process for the borehole installation, right through to maintaining a permanent supply.

James Carter-Brown, Residential Building Consultancy

11. Security sophistication for a new decade

The global UHNW population will rise by 27% over the next five years, meaning an extra 136,000 people will be worth US$30 million by 2024, according to The Knight Frank *Wealth Report.* As the numbers of wealthy have grown, the number of criminal gangs aiming to exploit them has also climbed.

Fortunately physical and cyber security services have strengthened in tandem. Whether that be security teams on site at

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> *If you are at risk of missing payments, then early communication of your concerns and issues to your bank or lender is critical*
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> 13.

For all our contacts, please turn to page 54

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Our research identified that longer-term investment engendered a more sustainable, resilient, economically productive and beautifully-built product while delivering more value for landowners

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an estate 24 hours a day, or just while the property is occupied, through to personal security or state of the art CCTV, alarms and surveillance.

Our Private Residence Consultancy team can conduct a full review of your needs to make recommendations of providers with the correct accreditations for both technical and physical security.

Mark Allen, Private Residence Consultancy

12. Planning for new homes in rural locations

The Government’s priority is to deliver 300,000 new homes a year, with an increased focus on quality of design and environmental considerations. This means that the location of future development is critical to create new, successful places where people want to work, live and play. The emphasis is on brownfield land, however greenfield land also has a role to play.

The National Planning Policy Framework (2019) allows for certain smaller scale development in rural areas under exceptional circumstances via planning applications. As an alternative approach, you can also seek a Local Plan site allocation, especially if it’s for a larger scale opportunity, for example a settlement extension, new town or garden community.

This plan-led approach is supported by the government. Its *Planning for the Future* policy paper (March 2020) aims to ensure all local plans are adopted by December 2023, however it is not a straightforward process and can take a number of years to prepare a local plan. This means that it’s beneficial to engage with plan-making sooner rather than later, even if only to submit a basic redline to put a marker down. As part of rural asset management, any land which might be considered to offer future development potential for any use could be considered for local plan promotion. Key policy tests relate to site availability, achievability and suitability, such as access to local facilities.

In September 2019, Knight Frank set up a new Planning team of 20 people operating from offices in London and Bristol, working across all sectors, from public and private landowners to developers, and closely with other internal services, on a range of development projects across the country.

If you would like to engage with a council in respect of your land, please get in touch.

Roland Brass, Planning

13. Dealing with lenders amid an outbreak

Farmland has historically been regarded as a relatively stable asset class by lenders, however the uncertainty brought on by Covid-19 may see a shift in this attitude.

The simplest way for rural operators to avoid issues with lenders and ultimately receivers is to make sure that, whatever the situation with the business or farm, the mortgage payments are met. If you are at risk of missing payments, then early communication of your concerns and issues to your bank or lender is critical.

If the debt comprises an overdraft or trading account, make sure that you have other banking facilities in the event that your working account is frozen by the lender. During any dispute with your lender, you need to be able to continue to meet the day-to-day payments of running the farm, otherwise issues of animal welfare or crop harvest can mount up.

Review all options for your assets, consider planning gain, alternative uses and quasi leisure schemes. It is likely that the rural market will change beyond all recognition in the coming years and adaptability to change will mean that businesses will survive.

Harry Dunger, Restructuring and Recovery

14. Getting the wages right

For many years, rural salaries have moved at a slower pace than the corporate world, making it hard to attract and retain talent on rural estates.

If annual salary reviews are not undertaken then I’d recommend that a market-based review is required once every other year rather than an RPI (or similar index) based review which can over time end up out of kilter with market-based salaries.

Bonuses have become more popular since the credit crunch, effectively offering a low risk way for a business to minimise costs but reward its staff when results are better than expected.

However, it’s wise not to forget that estates can be large businesses with some employing hundreds of people and managers overseeing assets worth hundreds of millions of pounds. Remuneration will have to reflect this.

The rural community often has traditional values, but managers come from a generation where money is discussed more freely. During these uncertain times, it is more important than ever to get the money right. Get in touch for a copy of our Estate Staff Salaries Survey.

Alastair Paul, Rural Asset Management

15. Stewardship: Build to Last

Stewardship is an age-old concept for landowners, but it is fast becoming the buzzword in development. Central to Knight Frank’s involvement with the Building Better, Building Beautiful Commission (BBBBC) – a group advising the government on how to promote and increase the use of high-quality design – is the aim to incentivise responsibility to the future, through stewardship of land and infrastructure development.

Our research for the BBBBC identified that longer-term investment engendered a more sustainable, resilient, economically productive and beautifully built product while delivering more value for landowners. The stewardship model encourages landowners to maintain a beneficial interest throughout development projects until homes are sold. The development

activity is captured within a development partnership agreement, such as an Agreement for Lease, providing the landscape for delivering 'good growth'.

Watch this space, as Knight Frank is supporting the advocacy of a package of measures to encourage landowners to adopt the Stewardship Model.

Get in touch for a copy of our research for the Commission, or to discuss the Stewardship Model.

Charlie Dugdale, Residential Development

16. No small beer: Business transformation amid a pandemic

The outbreak of Covid-19 gave many rural landowners, particularly those with diversified retail businesses selling direct to the public, a crash course in creative thinking.

Guy Ritchie's Gritchie Brewing Company in rural Wiltshire already had plans to bottle and sell its beer online, but the onset of the outbreak meant staff had to work quickly to accelerate the process in order to protect jobs and continue supplying customers.

Gritchie had invested in bottling equipment in 2019, but needed to make more operational changes to meet the needs of a bigger consumer group of bottle-drinkers that buy in different ways from the usual keg-seeking pubs and restaurants. During the UK lockdown in March and April, Knight Frank helped the company's managers to redeploy staff and introduce state of the art accounting software to fulfil orders.

Knight Frank can offer strategic advice on new trading operations and business diversification, as well as continuity plans, to ensure businesses can cope during times of upheaval.

Edward Dixon, Rural Asset Management

17. Shooting and Covid-19 – check your insurance and terms of business

Although we are all hoping that movement restrictions will be relaxed in time for the beginning of the 2020 shooting season, estate owners are becoming increasingly nervous about whether they will be able to continue with their shoots.

However, at the end of April around 80% were planning to still offer at least some days, according to the results of our Shooting Season Sentiment Survey.

Worryingly though, the survey also revealed the majority aren't protected by their insurance or terms of business if days eventually have to be cancelled. It's probably too late now for this crisis, but worth re-examining them to prepare for future situations. Please get in touch for the full survey results.

Alastair Paul, Rural Asset Management

18. Renewables are still an attractive option for rural estates

With the ending of the Feed-in-Tariff and Renewables Obligation (RO) schemes in April 2019, it is commonly thought that renewables are no longer a viable option for new projects. However, this is far from accurate. The reality is that projects have got larger to meet the new economic conditions. Whereas in the past solar PV projects from a few MWP upwards or single stick 1.0-1.5MWP wind turbines were commonplace and financially viable; projects now have to be larger to deliver the economies of scale required to meet investor hurdle rates.

In the past 12 months we have contracted on over 400MWP of solar PV projects alone; matching landowners and developers effectively and intelligently in order to maximise the chances of project success. These will utilise cumulatively 1,200-1,500 acres of land. All of these projects envisage the incorporation of batteries alongside solar PV. In addition, we are seeing renewed interest in on-shore wind projects in the north of England, Wales, and Scotland. Rents achievable by landowners are similar to during the subsidy era, 2010-2019. Developer interest in suitable land for anaerobic digestion, other waste-to-energy projects and biomass, also remains strong.

If you are interested in discussing renewables opportunities please get in touch.

David Goatman, Renewables

> *"Estate owners are becoming increasingly nervous about whether they will be able to continue with their shoots*

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Key contacts

We can advise on all aspects of rural property ownership.
Our principal service lines and the relevant contacts are listed here.
Find out more at knightfrank.co.uk

Rural Asset Management

Ross Murray
Chairman of Rural Asset Management

Our Rural Asset Management team helps the owners and trustees of many of the UK's leading estates with all aspects of rural property management. We advise clients on strategic planning, succession planning, staff management, accounts, farm management, restructuring and business diversification.

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RURAL ASSET MANAGEMENT REGIONAL CONTACTS:

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Edward Holloway
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Farm & Estate Sales

Clive Hopkins
Head of National and International Farm & Estate Sales

Our Farm & Estate Sales team helps clients to sell and acquire all types of rural property, from a single field to a large commercial or residential farm. We've been entrusted to sell some of the most important and valuable farmland properties and country estates in the UK, and provide market-leading intelligence on land values and rural property ownership trends.

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FARMS AND ESTATE SALES CONTACTS:

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Tom Stewart-Moore
Scottish farm sales
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Forestry

Clive Hopkins, Edward Holloway and Ran Morgan

Our forestry team works with a wide range of private estates and investors. For those looking to invest, we can advise on the sale and acquisition of forestry and woodland. For existing forestry owners, we offer consultancy services to help maximise the benefits; from timber production and carbon sales, to natural capital and sporting initiatives.

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Agri Consultancy

Tom Heathcote

Our Agri Consultancy team provides strategic farm advice across the UK. Led by Tom, the team advise farming clients and landowners on everything from crop rotations and farming systems to tax planning and strategic farm reviews. Working closely with our Rural Asset Management team and other consultancy services, we deliver dynamic solutions for clients with both commercial and non-commercial aspirations for their farming businesses.

+44 1664 496 981
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Property Acquisition

Mark Lawson, The Buying Solution

Mark specialises in the purchase of high value residential and rural estates. No other consultant has such a comprehensive knowledge of, and insight into, this exclusive market or access to its properties, many of which are offered privately to Mark and are therefore not available on the open market.

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Rural Valuations & Advisory

Tom Barrow

Our Country Valuations team provide RICS-approved valuations on rural property across the UK for a variety of purposes, including sale or purchase, bank lending, matrimonial issues and tax issues such as IHT, CGT and ATED. We can also provide expert witness advice for valuation disputes and legal issues.

+44 1285 886 684
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Mapping

Michael McCullough

The team offer bespoke mapping solutions in support of sales; acquisitions; valuations; land registration; estate, farm, forestry and portfolio management; compulsory purchase; strategic development and succession planning. We undertake boundary audits and site surveys, and have CAA permission to fly our own drone for surveys and property inspections. We also provide a consultancy service including guidance on all mapping and 3rd party data, software installation and ongoing support.

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Building Consultancy

James Carter-Brown

James has overseen multi-million pound renovations of some of the country's most desirable rural and urban residential properties.

Whether your property is a country house or London pied-à-terre, we can advise on all building consultancy issues including project management, renovations and improvements, listed buildings advice, building surveys and party wall advice.

+44 1488 688 523
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Private Residence Consultancy

Mark Allen

From private residences in town or country to small estates, Mark and his team can assist with all management matters including staffing and recruitment, projects, running cost-control, third party issues, security and problem solving across a remarkably wide range of matters.

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Compulsory Purchase and Compensation

Tim Broomhead and Jonathan Scott-Smith

We provide advice for private and institutional clients who are affected by a compulsory purchase order or who need to make a compensation claim. The legislation around such cases is complex and scenarios can differ depending on the purchasing authority. Professional advice from our team can be key to help ensure fair compensation.

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Residential Development

Charlie Dugdale

Charlie runs our national Land Consultancy team. His overarching ambition is to get Britain building homes that people are proud to live in. We tailor delivery structures that marry landowners with development partners, and are involved in a wide range of projects across England including major greenfield development areas and urban regeneration projects.

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Planning

Tom Stanley and Roland Brass

Our planning department can assist with all matters of planning and development for applications or planning strategy regardless of scale, from barn conversions and farm diversification projects to major housing developments and neighbourhood plans.

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Marine Consultancy

Rachel Wylde

Our Marine Consultancy department specialises in all aspects of marine-related property matters. The team manages a range of diverse marine and coastal portfolios for a number of unique clients and also offers a bespoke professional service. We can assist owners of ports, marinas, foreshore and seabed, estuaries, reclaimed and adjacent land and beaches.

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Restructuring and Recovery

Harry Dunger

Harry has 15 years' experience of providing solutions to farms and rural businesses looking to restructure their debt liabilities and maximise asset values. The team also accept Fixed Charge/ LPA appointments on behalf of lenders looking to recover their debts.

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Agri Finance

Rachel Barnett

Rachel is an agri lending specialist in Knight Frank Finance's Agri Finance team. Rachel provides advice and financial solutions for farms and rural businesses looking to refinance or diversify across the UK. Rachel has many years of experience supporting clients in arranging finance for rural renewables projects, diversification projects and land, property and equipment acquisitions.

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Accounts

Elin Jones

Our Client Accounting team provides a fully managed accounts service for owners of large country homes, farms, rural estates and businesses. We can help with rent collection, accounts payable, payroll, VAT submissions, management accounts preparation and bespoke reports.

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