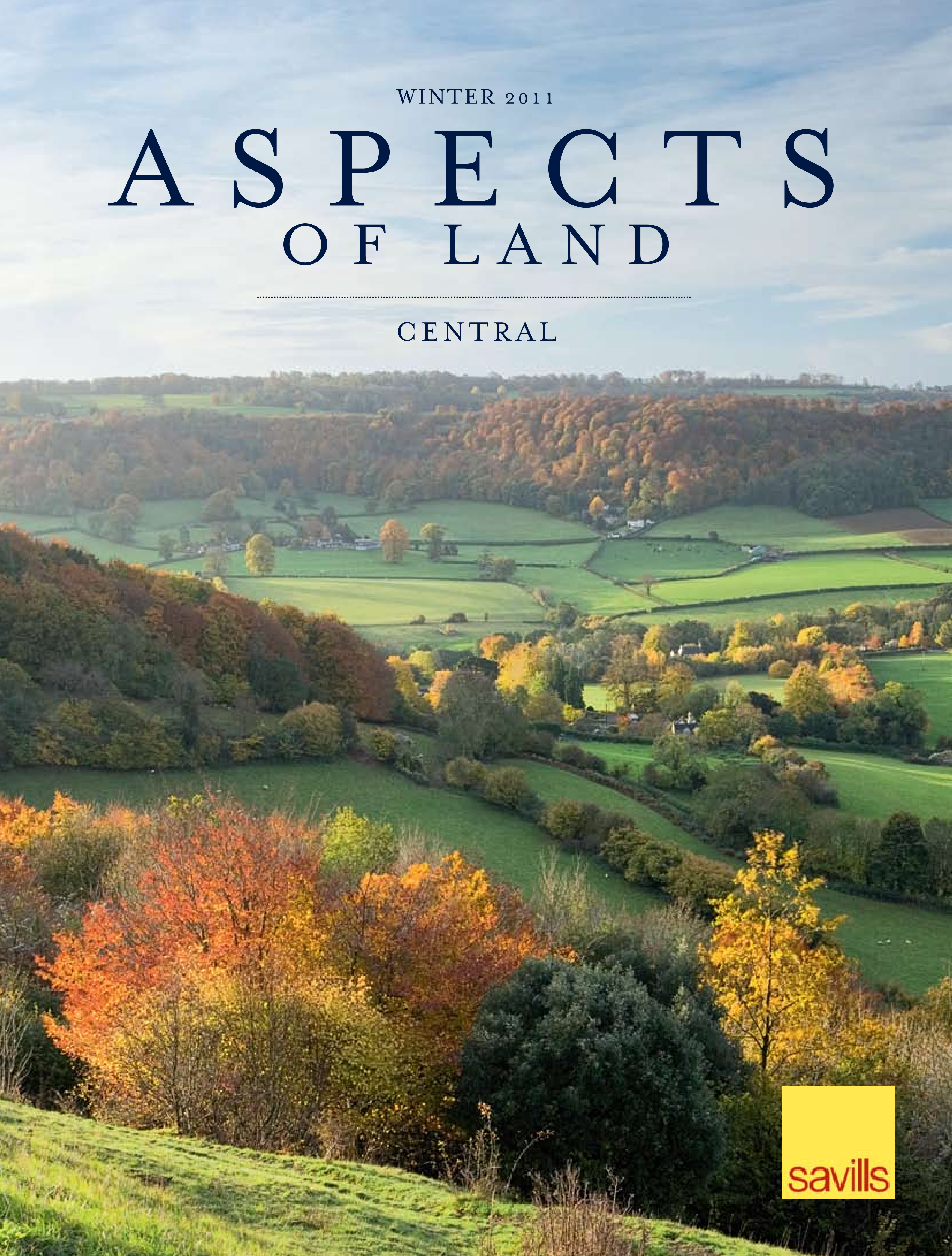
WINTER 2011

ASPECTS OF LAND

CENTRAL



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Welcome

...to the Central issue of Aspects of Land

The winter 2011 edition of Aspects of Land comes at a time of confidence in the agricultural market, as commodity prices – and thus profitability – remain high and estates benefit from rising rents.

Nevertheless, the sector must always be alert to economic and political challenges. Increasing input costs are squeezing margins. The abolition of regional spatial strategies has caused a planning policy vacuum with regard to bringing forward land for development. And the proposed shift towards presumption in favour of development will present threats to some landowners.

The Localism Bill's proposals that the owners of privately held assets with community value – such as car parks, allotments and playing fields – will be prohibited from transferring ownership without offering the local authority the opportunity to buy them first will raise serious questions for many landowners. Then, of course, there is the issue of HS2 – we are already dealing with a number of hardship cases relating to the project.

But there are opportunities too: the strong demand for light industrial premises as smaller businesses tighten their belts; the healthy rental market; and the ongoing need for renewable energy sources.

So there is plenty to think about. As ever, our teams will be happy to discuss any issues that this edition of Aspects of Land raises, so do get in touch.

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CONTENTS

Savills Estate Benchmarking Survey 2011

Latest figures reveal a steady rise in average gross income

This year's Savills Estate Benchmarking Survey (EBS) makes heartening reading. The figures for all rural estates show that average gross income continued its steady rise, increasing by 4 per cent to £197 per acre in the year to April 2011.

Growth was even stronger in the East and the North, where agriculture pushed gross income up by 6.7 per cent.

Underlying trends, however, sound a note of caution. Average net income was unchanged, as rising costs wiped out the increase in gross income. Net income averaged £108 per acre, and fell by 10.2 per cent in the South East and 1.6 per cent in the South West.

The major costs were for property repairs, pushing average expenditure to £89 per acre, up 9.5 per cent on 2010. Property repair costs rose by 14 per cent, to £45 per acre. Management costs also increased by 5 per cent to £24 per acre.

Strong commodity prices led to improved returns from agricultural enterprises. The average annual rental income from Assured Shorthold Tenancies increased by 5 per cent in 2011, to £8,300 per dwelling. Residential rents are expected to continue to rise as funding purchases remains difficult.

Commercial income contributed an average of £32 per acre to gross income, with office rents up by 5.7 per cent to almost £10 per square foot. Like last year, other workspace rents came under pressure in 2011; rent growth stalled or fell as a result of the recession and income from telecoms fell by an average of 9 per cent.

What does this mean for capital returns? In the year to 5 April, the average total return on let property was 9.3 per cent – up from the 7.3 per cent recorded in 2010 – boosted by continued strength in the farmland market. The rural estate still performs well.

"Target expenditure to ensure investment reaps rewards in coming years," advises Crispin Mahony, Savills Oxford.

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A clearer PICTURE

Analyse your property's exposure to IHT with Savills Balfour Matrix

The recent Balfour Case was a victory for the taxpayer and, more pertinently, for the owners of estates and agribusinesses, and their heirs. It confirmed the principal tests that will be applied by Her Majesty's Revenue and Customs (HMRC) in a claim for Business Property Relief (BPR). This has also clarified the ways that owners can order their affairs to ensure they qualify for this form of IHT relief.

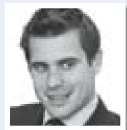
As a result, Savills has come up with the Balfour Matrix, a mechanism that helps work out whether rural businesses are likely to qualify for BPR, the extent to which they might be liable to IHT, and what steps they can take to minimise their exposure. This matrix collates a range of information, which will then show whether action needs to be taken to secure the estate for heirs, and what steps can be taken.

Early warning of tax implications allows businesses to establish a structure that both maintains operational objectives and maximises the chance of obtaining IHT reliefs.

The Balfour Matrix process shows the rate of BPR that is potentially available; the relative value of trading and investment elements (though this is not a formal valuation); the proportion of time that is spent on trading and investment; and the relative turnover and profitability.

It also includes a consideration of the estate "in the round" in the light of case law. If the results suggest a possible risk to IHT reliefs, Savills experts can suggest possible solutions. These can then be implemented with specialist advice and documentation available from legal counsel.

Contact Details



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The GOLDING CASE has established a LEGAL PRECEDENT on APR

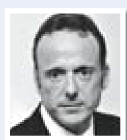
A test case that established a legal precedent on whether a farm residence counts as agricultural property – and therefore qualifies for Agricultural Property Relief (APR) on Inheritance Tax (IHT) – is a significant victory for Clive Beer, Savills Head of Professional Services. Clive acted as expert witness on behalf of the taxpayers, the children and executors of Dennis Golding, in the case of Golding v Her Majesty's Revenue and Customs (HMRC). The case concerned HMRC's ruling that the Golding residence was not agricultural property under the Inheritance Tax Act. The judgement was handed down in May, and became law as HMRC didn't appeal.

The case centred on a smallholding near Lichfield, the residence of Dennis Golding. HMRC accepted the executors' claim for APR in respect of the land and outbuildings, but not for the house, a three bedroom property in a poor state of repair, which HMRC argued was not character-appropriate to the 16 acres. The tribunal found in favour of the taxpayers and executors.

The Golding case confirms that character appropriateness should not simply be based on financial viability; it needs to take a number of factors into account. It recognises that reduced business turnover and profitability do not mean that a farmhouse ceases to qualify for APR. And acknowledges that the character-appropriate test must consider the farmer's approach to life.

"This is a victory for farmers and landowners," says Clive. "If HMRC had won, the character appropriate test would have been subject to the vagaries of farming profitability – and few farmhouses would qualify for APR in bad years."

Contact Details



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GOOD HOUSEKEEPING

Many agricultural estates will still have Agricultural Holdings Act (AHA) tenancies that started before 1 September 1995. Any AHA tenancy starting before this will only be eligible for 50 per cent Agricultural Property Relief (APR) for Inheritance Tax purposes (unless a succession tenancy has occurred after the date).

Under the Regulatory Reform (Agricultural Tenancies) (England and Wales) Order 2006 (SI2006/2805), landlords can improve the level of APR they get on let AHA tenancies from 50 per cent to up to 100 per cent, which could be a significant benefit. Since October 2006, landlords and tenants have been able to agree a "surrender and re-grant" of a tenancy. The tenant keeps his security of tenure and any succession rights, and the landlord can claim 100 per cent APR.

Landowners should take this chance to review their tenancy asset register. There may be opportunities to optimise APR from 50 per cent to 100 per cent, saving a significant amount of tax.

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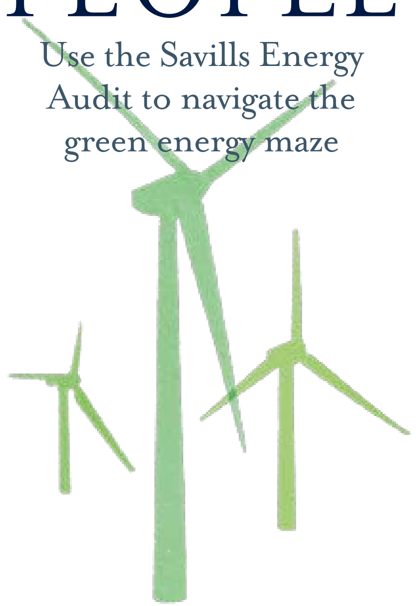
POWER to the PEOPLE

Use the Savills Energy Audit to navigate the green energy maze



The renewable energy market, driven by ever-growing government targets, offers landowners a unique opportunity to generate income, make their businesses greener and protect themselves from fluctuations in energy costs. It is, potentially, a long-term relationship, generally a minimum of 20 years. The opportunity, therefore, should not be taken up without putting considerable thought into what is being developed and what the consequences of it might be.

The Savills Energy Audit is designed to lead clients through the maze and offer clarity on the correct technology and route to development for their property. It is a three-stage process, drawing on the knowledge of Savills in-house teams, including planners, project managers and specialist consultants.

STAGE 1 acts as an initial sieve to draw out the clients' objectives and highlight key issues. The report is based principally on a site visit and GIS-based assessment, looking at feedstock availability and constraints, scoring the technologies against a clear traffic light matrix and giving advice on how to take the opportunities forward.

STAGE 2 is a bespoke report looking at specific technologies agreed with the client. The report assesses the viability of each technology in quantitative terms, looking in-depth at issues such as infrastructure, environmental impact, constraints, planning, grid and financial viability. This stage is designed to form the backbone of a business plan which can be presented to banks or others when discussing finance.

STAGE 3 takes the scheme into project development and goes from technical studies, contract negotiations and planning through to consent and commissioning.

The audit process is designed to be flexible, allowing clients to enter at any stage they choose. It also offers them the ability to look into alternative development routes, whether that's option/lease, joint venture or self-development.

Renewable energy is now an essential part of any rural business plan. The Savills Energy Audit will help steer clients through the labyrinth of products and policies that fill the market, ensuring that technology, resources and business needs align.

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CAP reform legislation

Behind the thinking of EU decision makers

As anticipated, the draft CAP reform legislation was leaked in August, allowing feedback to the proposals, prior to the formal draft legislation in October and final implementation in 2014. It seems unlikely that the reform will be implemented anywhere near the draft legislation. What it does do is give us an idea of the thinking of the EU decision makers and what themes may come in this and maybe future reforms.

BASIC PAYMENT SCHEME

In the proposals, capping is applied to the basic element. The legislation proposes an increased progressive reduction in direct payments to larger claimants. Whether it will be applied further is open to debate.

EXISTING ENTITLEMENTS

In the document, existing payment entitlements will be cancelled on 1 January 2014 and reapplied for, based on eligible area, in the first year of the new scheme, with these being transferrable, as is the case currently. Landlords who have land let on short term FBT agreements should have discussions with tenants to protect the longer term interests of both parties.

ENVIRONMENTAL ELEMENT

A significant level of additional payment, up to 30 per cent of the national allocation, will depend on achieving specific targets which go beyond what is in place under cross-compliance. This could include an ecological focus area with at least 5 per cent (excluding permanent pasture) placed in ecological management. Mandatory crop diversification and maintenance of permanent grassland areas are also included. This top-up payment is applied to the area used for the basic scheme.

COUPLED SUPPORT

There is a provision for coupled support to maintain the current area of crops in a region. Payments can be applied to almost any type of agricultural production, and could be based on a fixed area, yields or number of animals.

From what has been outlined, it is hard to believe reforms would go through unchanged. What we can be sure of is that bureaucracy would be increased to manage the scheme.

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The FARM SUPERMODEL

Creating an accurate farm budget can be difficult, so Savills has developed a Virtual Farm Model to help.

Designed in association with *Farmers Weekly*, the model comprises a set of accounts from a hypothetical 2,000-acre commercial arable business. You can reappraise likely inputs and outputs with fluctuating influences, and determine the impact of decisions on cash flow and profits.

Using forward prices for the 2012 harvest, Savills predicts a profit of £173/acre for the model farm. However, input costs and overheads have soared, so the working capital required has jumped from £330/acre to £440/acre, which could create cash-flow issues.

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All CHANGE

Chris Huhne's Green Bill will have significant implications for rural property and rural landlords

Dubbed "The Green Bill", Chris Huhne's much anticipated Energy Bill is now at the report stage, following two hearings in the House of Commons earlier this year. The Bill is expected to have significant implications for rural property and rural landlords.

In summary, the Bill aims to slowly introduce changes to ensure greater energy efficiency and reduce carbon emissions from both domestic and business properties.

It will also bring two key developments. First, from 2016, landlords will have to accept all requests from their tenants to make energy-saving efficiencies or face tribunal action. Secondly, and with greater implications for rural property, landlords will no longer be able to let domestic or business property with an energy-efficiency rating lower than Band E, as classified by the Energy Performance Certificate (EPC).

This development is likely to affect more than 30 per cent of rural estate properties. According to Government figures, there are at least 682,000 properties in the UK that will have to undergo some form of improvement in order to boost their energy rating. Landlords must, therefore, be proactive in their approach and begin making changes now to avoid costly improvements when these changes take effect.

They need to start the process by identifying and prioritising properties in need so that they can manage expenditure effectively and spread the costs of upgrading properties between now and 2018. In severe cases, and there are some estates where over 90 per cent of properties are likely to be affected, landlords could potentially decide to sell off non-core properties that do not and may not meet the new, more stringent requirements. Again, landlords should be proactive and assess their portfolios before the legislation affects values.

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Well PLANNED

A new planning policy framework should offer great opportunities for rural development, says Rob Linnell, Savills Oxford Planning Department

The Government is currently consulting on a new National Planning Policy Framework (NPPF) which has the potential to really benefit rural development. The NPPF aims to simplify the 7,000 existing guidance notes, giving local planning authorities more control, and encourage sustainable economic growth and development in rural areas.

However, a campaign by the National Trust and CPRE threatens to undermine this positive work, and landowners must act now to support its introduction.

The NPPF is about using development as a tool for economic growth. There was concern that the Localism Bill would stop development, but the NPPF favours sustainable development, giving economic issues greater weight in the decision-making process.

That said, it is not, as some are saying, a free-for-all. Planners must still look at the local development plan, and take all other material considerations into account – that balancing still has to be done.

Treatment of Green Belts, heritage assets and town centres will remain virtually unchanged, says Rob Linnell, Savills Oxford.

"The NPPF should give rise to opportunities, encouraging development instead of discouraging it," he adds.

"The proposals should give landowners more freedom to build farm dwellings, as well as housing or commercial developments to meet local requirements. It looks as though it will be easier to convert traditional buildings into houses, and to build or extend agricultural units.

"Where the local parish is sympathetic, I am hoping the NPPF will streamline the planning process, bypassing the council in cases where local support for development is strong. Proposals will need to be carefully assembled, but this new framework is more likely to reward constructive reasoning with planning permission."

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QUICK rail UPDATE

Uncertainty mounts as consultation on HS2 comes to a halt

The Government's public consultation on the proposed high-speed rail link (HS2) running between London and Birmingham ended on 29 July. Property owners likely to be affected will want answers.

Transport Secretary Philip Hammond is due to announce the decision later this year on whether the estimated £17bn project will proceed. Because of the scale of the project, HS2 will not go through the usual planning process, which would make it subject to lengthy Public Enquiries. Instead, the legislation will be enacted by a hybrid Bill that will go through the Houses of Commons and Lords.

Not everyone has the option to wait until the decision is made to sell their property though. Inevitably, the uncertainties have meant properties close to the proposed HS2 route have found it difficult to find a buyer. Those who cannot sell their property are left with the option of applying to the Exceptional Hardship Scheme (EHS), but this is subject to quite specific criteria and not all are successful.

Savills HS2 team is working with Savills residential offices along the proposed route, including Solihull, Banbury, Oxford, Beasconsfield, Amersham and Northwood. They are advising on how to apply for compensation.

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The VALUE OF WATER

It's worth more than you might think…

Water is a poorly distributed resource – arguably, there's too much in the North and West of the UK, too little in the dry East. In the arable East, the true value of the resource is starting to have an effect.

In the UK the "price" of water varies immensely. The consumer is prepared to pay much more for a litre in a bottle than for water out of the tap. At the time of writing, bottled water is 230 times more expensive than tap water.

The cost to a farmer for water which he drills, pumps and supplies from his own holding and applies to his crops is about one-third of the cost of tap water. In capital terms, freehold arable land with water costs between a quarter and a third as much again as unirrigable land.

In the UK as a whole, 35 per cent of all public water supply comes from groundwater aquifers. In East Anglia, the current figure of 47 per cent may be an under-estimate. The patchy geographical distribution of groundwater extraction has caused the Government great concern, particularly where natural habitats are under threat. This has led the Environment Agency, the Government agency in charge of water resource management, to scrutinise the impact of water abstraction.

Over the next year, we will see the results of this research and water abstraction could be cut further.

As ever, the value of water really becomes apparent when supplies are under threat. Water supply is essential for the production of arable crops such as potatoes. The real impact is yet to be seen, but over the next decade, water will be the subject on all farmers' lips. Many are already sharing management of this resource; more need to do so.

Distribution and efficient usage is key and it has to be on the agenda at all farm meetings.

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An UPDATE on COMPLIANCE ISSUES

Legislation in the countryside is now so onerous that landowners often take drastic steps to avoid penalties. One such area is the treatment of trees next to public highways. Over the years, landowners have been at such risk of prosecution that rather than get regular expert advice on the safety of trees many have simply been felled. Thankfully a new document from the National Tree Safety Group now aims to reduce how often some trees need to be checked.

Rural householders have also been threatened with red tape in the form of septic tank regulations, due in January 2012. Under the Environmental Permitting Regulations, private septic tank sewage systems would have to be registered. Householders with systems that discharged to soakaways or water courses would also need a permit or exemption certificate. Fortunately, common sense has prevailed and a review is underway to simplify legislation.

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Farmland review

With supply slightly down and plenty of buyers in the market, prices look to remain steady

How is the farmland market performing across Central England? Richard Binning, of Savills Oxford, looks at the key trends, sales and current prices.

VALUES

The division between 'the best'and 'the rest' is striking, with the best properties selling in a trice and poorer farms and equestrian properties taking longer, although they are generally still selling. In the best sales, local farmers and landowners compete with national interest to achieve high prices; for example, at Toot Balden, just outside Oxford, we offered 100 acres of bare pasture at a guide of £8,000 per acre and it comfortably exceeded that. Base values, however, are £5,500 to £6,500 per acre across central England.

WHO'S BUYING?

There is a lot of interest in well-located residential farms, as the London house market remains strong. The value differential between London and country property is as big as we've ever seen, so, to many who have sold in London country houses and farms look affordable.

Farmers are still important players, especially locals buying neighbouring land. Farmers with cash from development sales particularly want commercial-scale properties.

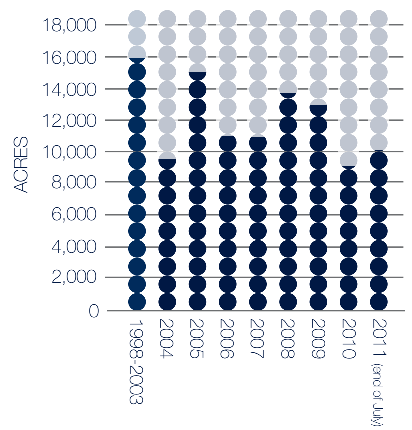
Investors and corporate funds, including Oxbridge colleges and pension funds, are keen on long-term investment vehicles: sizeable parcels of land, preferably with a built-in uplift in value, such as an expiring tenancy or development potential.

WHO'S SELLING?

The three Ds – death, debt and divorce – account for 60 to 70% of the market. A fourth D – downsizing, due to retirement – is also significant. Banks are increasingly scrutinising their clients' ability to service their debt, so we have seen more debt-related sales even in cases where the capital is secure.

No.1
FARM AGENT
marketing more farmland than any other agent*

Central England
Publicly marketed farmland



Number of acres – lowland farms/farmland over 50 acres marketed in the national press

Source: Savills Research

*Source: based on all land publicly marketed over 50 acres

EXCITING SALES

It was a pleasure to be involved in the sale of Model Farm, Hampton Poyle, on behalf of the Duchy of Cornwall. It is a traditional dairy farm of 320 acres with permission to convert the outbuildings into two residential units. The tenants were an excellent dairy farmer and his vet wife. The Duchy didn't want to lose them and moved them to a purpose-built dairy farm in Dorset, so releasing the farm for sale. We had a huge amount of interest at a guide price of £3.5 million and achieved an excellent sale.

The sale of the year will be Bragborough Hall, Northamptonshire, a 700-acre estate with a superb house, five cottages and a shoot. The guide price is in excess of £7 million.

OUTLOOK

With supply slightly down to the end of July and no lessening off of buyers, I do not expect a slump any time soon. But we are not seeing values increasing at the rate they were; I anticipate a period of consolidation at the current level for the next year or two before the next market surge.

THE NATIONAL CONTEXT

"With sustained demand, and in the absence of a significant increase of supply, values have remained solid," says Alex Lawson, Savills Director of London Farms and Estates. "With economic markets looking increasingly unstable, farmland remains attractive to conservative investors. Concerns about climate change and food shortages seem bound to reinforce arable land values, and some incredibly healthy sales are being achieved across the UK.

"Nevertheless, some of the froth seems to have come off the market. That's not surprising; the incredible growth of the past three to five years was always going to slow.

"We are seeing a two-tier market: the £10,000 per acre sales grab the headlines, but are at odds with the many that achieve their guide prices or less. This can flatter the market, and expectations must be balanced with reality.

"Overall, the market is positive. Unless we see major changes – to the Government's tax plans, for example – the market looks set fair."

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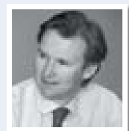

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Property highlights

A selection of farms and estates from Savills Central region

Traditional Cotswold farm and top quality farm shop

Foxbury Farm
Brize Norton, Oxfordshire
- Mixed arable and livestock farm
- Established modern farm shop
- 5 bedroom farm house with a further 3 bedroom cottage
- Renewable energy boiler

Guide £3.5 million
Contact: Savills Oxford
01865 269 179

Versatile arable farm

Red Hill Farm
Newent, Gloucestershire
◆ 5 bed house ◆ Modern farm building ◆ Arable and pasture land ◆ 120.4 acres

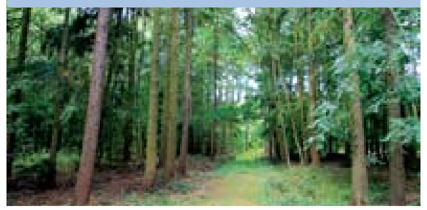
Guide £1.6 million
Contact: Savills Cheltenham
01242 548 020

Edge of village land

Land at Abthorpe
Towcester, Northamptonshire
◆ Arable ◆ Pasture ◆ Edge of village location ◆ About 86 acres

Guide £575,000
Contact: Savills Banbury
01295 228 050

Woodland near Oxford



Clifton Heath Wood
Nuneham Courtney, Oxford
◆ Ring fenced block of mixed woodland ◆ Internal rides and tracks ◆ 91 acres

Guide £450,000
Contact: Savills Oxford
01865 269 179

Traditional country estate

Bragborough Hall
Braunston, Northamptonshire
◆ Regency house in parkland ◆ Productive farming operation

Guide £7 million
Contact: Savills Banbury 01295 228 050

350 acre residential and commercial farm

Lyneal Wood
Ellesmere, Shropshire
◆ 6 bedroom Georgian farmhouse ◆ Wide range of buildings

Guide £3.25 million
Contact: Savills Telford 01952 239 500

All in the details

Savills has been advising landowners and farmers for over 155 years and offers over 350 property services. What you might not know…

NATIONAL COVERAGE

Savills is the UK's leading farm agent, marketing more farmland than any other agent*

HERITAGE

Savills was established in 1855 as a rural surveying business. It has 25 dedicated rural offices across the UK and over 200 professionals working for its clients

CLIENT BENEFITS

Savills prides itself on long-term relationships and has been working with many clients for a number of generations

PEOPLE POWER

Savills rural staff have a combined total of 2444 years' experience

Case in point

Savills has acted as 'Expert Witness' in hundreds of cases, many of which have established important new case law for rural property owners

Connecting you

Clients have access to a global network of over 200 offices and associates, throughout the Americas, Europe, Asia Pacific, Africa and the Middle East

Technology

savills.co.uk is the most visited UK national estate agency website

(Source: Hitwise, March 2011)

The knowledge

Savills has a dedicated rural research department, which has been operating since 1987

Facts & figures

- Savills is number one in the UK Business Superbrand charts in the real estate sector, and has been for the last three years
- Savills is *Estate Gazette*'s number one UK agent for the 11th year running
- Savills won the Best Corporate Website Award at the 2011 Property Marketing Awards
- Savills received the UK's Number One Graduate Employer award at *The Times* and TARGET jobs National Recruitment Awards

*Source: based on all land publicly marketed over 50 acres