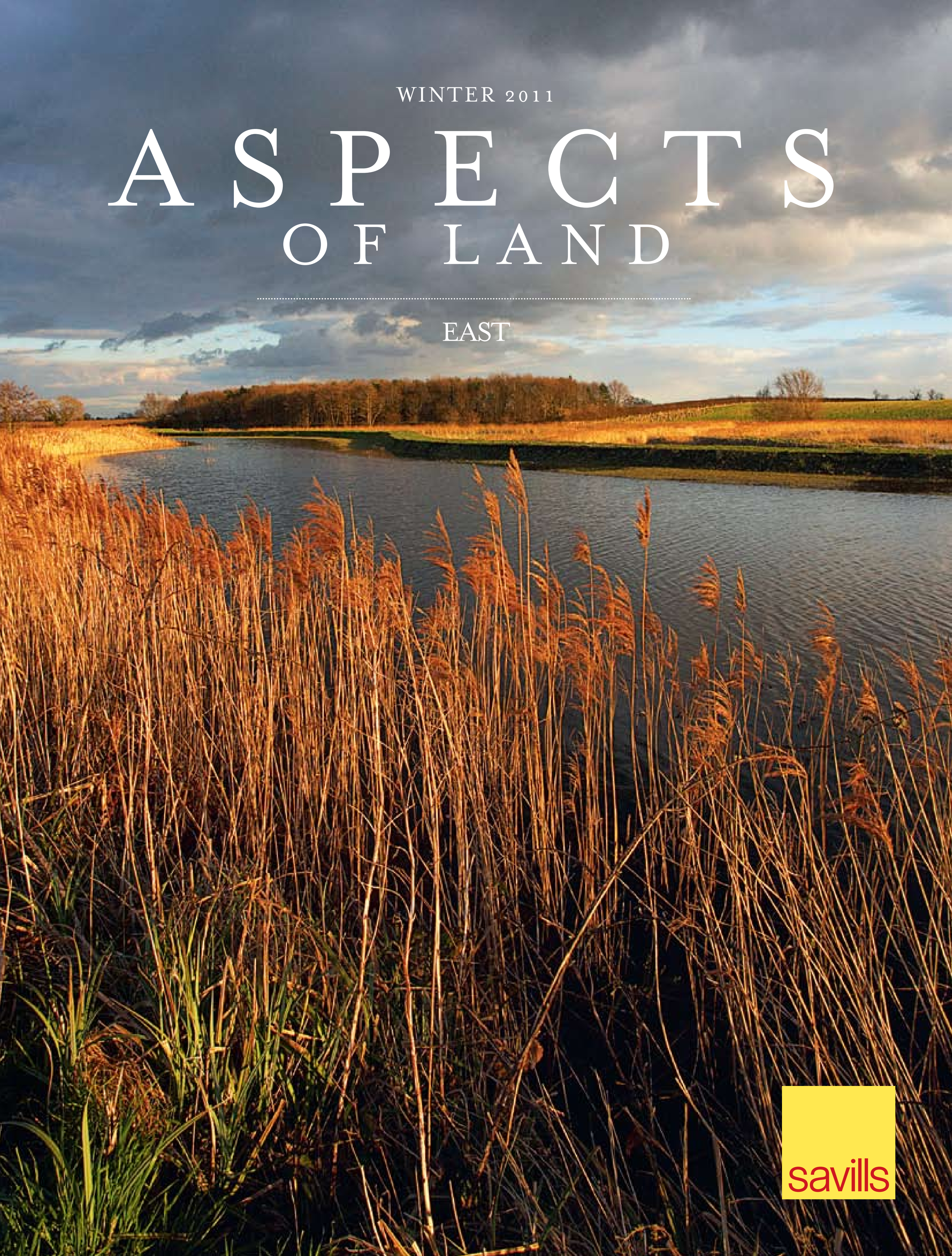
WINTER 2011

ASPECTS OF LAND

EAST



Welcome

...to the East issue of Aspects of Land

The winter 2011 edition of Aspects of Land East brings a selection of topical articles and news, which I hope you will find of interest. It comes at the end of a summer that has been volatile economically and politically and while the agricultural sector is not immune to such external influences, it has displayed characteristic resilience. Land prices are buoyant throughout the region and for many, especially those with heavier land, the harvest has proved better than anticipated following the spring drought.

Although the general mood is positive, this is not the time to overlook the detail. As with the England cricket team, whose attention to detail has made them the best in the world this summer, applying a renewed level of scrutiny to your business will pay dividends.

Now is an ideal time to consider working collaboratively, sharing not just machinery but also fixed equipment, technology and management arrangement. The importance of water conservation and organisation cannot be over-emphasised and the uncertainties of the CAP reforms expected in 2013 must be factored in to business planning over the next 12 months.

So there is plenty to think about and, as ever, our teams throughout the Eastern region will be happy to discuss any topics that this edition raises, or any other rural property issue.

Michael Horton
Head of Region
01473 234 813
mhorton@savills.com

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; rental 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 Guy Warde-Aldam, Savills Professional Services.

Contact Details

Guy Warde-Aldam
Professional Services
01603 229 216
gwarde-aldam@savills.com

A clearer PICTURE

Analyse a 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. This mechanism 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

Simon Dixon Smith
Professional Services
01245 293 249
sdixonsmith@savills.com

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 Rural 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 did not appeal.

The case centred on the residence of Dennis Golding, who farmed a smallholding near Lichfield. 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. 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. It also 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

Clive Beer
Professional Services
020 7877 4724
cbeer@savills.com

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.

Contact Details

James Ingram
Estate Management & Consultancy
01279 756 808
jingram@savills.com

Well PLANNED

A new planning framework should offer new opportunities for rural development, says Garth Hanlon, Savills Cambridge

The Government is currently consulting on a new National Planning Policy Framework (NPPF) which has the potential to benefit rural development. The NPPF aims to simplify the thousands of pages of existing guidance notes into 60 pages and encourage sustainable economic growth and development in rural areas.

A well-publicised campaign by the National Trust and CPRE seeks further clarification of the actual wording and its implication for the countryside.

The NPPF is about using development as a tool for economic growth. There was a lot of concern that the Localism Bill would put the brakes on development but the NPPF introduces a presumption in favour of sustainable development, giving economic issues much greater weight in the whole decision-making process.

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

Many of the existing policies towards Green Belts, heritage assets and town centres will remain virtually the same in terms of their general thrust. The NPPF should give rise to greater opportunities, hopefully encouraging new development instead of discouraging it.

The new proposals are a welcome shift in promoting development and prioritising economic growth. In the future, we hope that this NPPF will provide a new, positive context for development in the rural areas, especially for the people who live and work in those areas.

In the absence of an up-to-date development plan, local support for new development opportunities is critical. As always, proposals will need to be carefully prepared, but against what we hope will be a much clearer and more positive planning context.

Contact Details

Garth Hanlon
Planning
01223 347 252
ghanlon@savills.com

CAP reform

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

Key to the reform is a move away from payments based on historic production. England and Wales will have achieved this by 2012; in Scotland and other member states it will have greater impact.

The legislation proposes an increased progressive reduction in direct payments and a payment cap at 300,000 euros, potentially offset by "salaries" paid by the farmer. This has been on the agenda for some time and continues to be a significant area of debate. The options of restructuring businesses to minimise the effect of capping need to be carefully considered – artificial arrangements are open to challenge by the RPA, but there may be grounds to advance planned changes.

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 – thought needs to be given to who will be in 'occupation' of the land at the time the entitlements are reallocated.

ENVIRONMENTAL ELEMENT

More focus than ever is to be placed on environmental goals. 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 (eg fallow, terraces, landscape features and buffer strips). 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 the reforms would go through without watering down. What we can be sure of is that bureaucracy would be massively increased to manage the scheme – the proposals are also impractical in current UK farming structures.

Contact Details

Giles Hanglin
Agribusiness
01223 347 276
ghanglin@savills.com

GOOD HOUSEKEEPING

Many agricultural estates will still have Agricultural Holdings Act (AHA) tenancies that commenced prior to 1 September 1995. The relevance of this date is that any AHA tenancy from before this date will only be eligible for 50 per cent Agricultural Property Relief (APR) for inheritance tax purposes (unless a succession tenancy has occurred post 1 September 1995). Under the Regulatory Reform (Agricultural Tenancies) (England and Wales) Order 2006 (SI2006/2805), an opportunity has arisen for landlords to improve the level of APR they receive on let AHA tenancies from 50 per cent to potentially 100 per cent. This could be a significant benefit on an agricultural estate where let land values continue to rise in the current marketplace. Since October 2006 it has therefore been possible for landlords and tenants to agree a "surrender and re-grant" of the tenancy. Under this, the tenant retains his security of tenure and any succession rights he had under his old tenancy, and the landlord can claim 100 per cent APR on the land.

ISSUES TO ADDRESS:
- STAMP DUTY
- CAPITAL GAINS TAX
- INCOME TAX
- CONNECTED PARTIES
- VAT

Landowners should take this opportunity to review their tenancies and see whether any of them merit further scrutiny. They will then be able to see where they can optimise APR from 50 to 100 per cent to save themselves tax.

Contact Details

John Wootton
Estate Management & Consultancy
01279 756 802
jwootton@savills.com

The VALUE OF WATER

It's worth more than you might think…

Water is a poorly distributed resource. Arguably 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 capitalise.

In the UK the "price" of water can vary immensely. The consumer is prepared to pay much more for a litre of water in a bottle than for the same product 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 (although detailed evidence of this is scarce), according to some calculations.

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 vulnerable natural habitats are under threat. This has led the Environment Agency, the Government agency charged with water resource management, to carefully model and scrutinise the impact of water abstraction. Over the coming year we will start to see the results of this research and water abstraction could be cut further in many individual cases.

As ever, the true value of water really becomes apparent when supplies come under threat. Water supply is essential for the production of specialist 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 co-operating and sharing the management of the resource. Many more need to do so. Distribution and efficient usage is the key and it needs to be an agenda item for all farm meetings.

One East Anglian estate that has already embraced the benefits of a coordinated approach to water is the Benacre Estate in Suffolk. In 2003 it established the Benacre Water Company, controlling three reservoirs and 98 million gallons of the precious asset and supplying seven customers. The company manages water across the estate's 4000 irrigable acres.

Contact Details

Mark Little
Professional Services
01603 229 225
mlittle@savills.com

FORMER TURKEY FARM SHOWS LARGE-SCALE SOLAR POWER isn't for the birds...

Why solar power schemes can still be a viable option

When the Government announced its decision to slash Feed-in Tariffs for solar energy schemes over 50KW many feared it signalled the end of large, single-site photovoltaic (PV) power generation.

But, says David Grindley, Head of Renewables in the East, a pioneering proposal at a Norfolk business park – formerly a turkey farm – has come up with a solution and created an important precedent.

"The key to the success of the Rookery Business Park model is that the property is solely owned by our client, but occupied by 26 separate commercial tenants," explains David. "The combined output from rooftop PV panels on each building is more than 350KW, but the entire site benefits from the sub 50KW tariff. This would not be the case if there were just a single occupier.

"The scheme has been designed so that we can maximise savings through economies of scale, while at the same time benefiting from the higher rate. People thought it couldn't be done, so this is important news for rural and commercial clients who have PV potential on their land, something the Savills Energy Audit would be able to confirm.

"Being a former turkey farm with a range of different buildings makes Rookery Business Park a perfect location for this kind of scheme. Such sites exist across the country and we now have a proven business model to bring more plans forward."

Contact Details

David Grindley
Head of Renewables
01603 229 234
dgrindley@savills.com

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 a 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. 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 and an integral part of the economy. 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.

Contact Details

Ben Makowiecki
Agribusiness
07807 999 238
bmakowiecki@savills.com

Farmland review

The outlook appears secure for farmland values in Eastern regions

Christopher Miles, Savills Norwich, looks at the key trends, sales and prices for the farmland market in the East.

VALUES

Values continued to increase during the first half of the year. They previously peaked in 2008 before dropping by about 10 per cent when the credit crunch hit. Now they have risen to an average of £7,000 per acre – 16 per cent more than the 2008 peak and a 160 per cent increase over the last five years. Pockets of the best land have been achieving up to £10,000 per acre.

These figures show that land in the eastern counties is outperforming the national market by an average of 12 per cent, thanks to the quality of the land. Nevertheless, the market is polarised. Buyers will pay what it takes for prime land in an ideal location, but at other levels of the market land will sell for much less.

WHO'S BUYING?

The significant differential between prime land and the rest depends on just a few buyers. If there are enough farmers looking to expand, competition is fuelled and prices are pushed up. Otherwise, it's investors who have the money to shape the market.

During the last quarter we have seen signs of an increase in lifestyle buyers, although the distinction between a lifestyle buyer and an IHT investor is not always clear cut.

WHO'S SELLING?

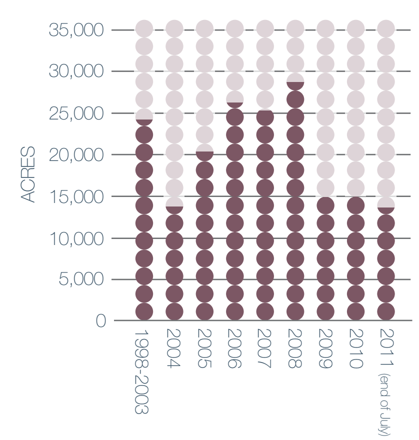
Too few to meet demand: although supply across the UK has been higher this year, in the eastern counties it has decreased. The principal vendors are farmers with no one to pass their farm on to, and who are looking to take advantage of the current high values and strong demand, as well as entrepreneur's relief.

EXCITING SALES

Two sales illustrate the excellent results that the right kind of property is currently achieving.

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

East of 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

Great Southwood Park Farm near Bury St Edmunds, comprising 680 acres of arable land, a farmhouse and buildings, sold immediately after it was launched. It achieved a significant premium over its £6.5 million guide, thanks to its location and the high percentage of arable land.

Mill Farm, 543 acres of grade 2 arable land at Wistow, Cambridgeshire, received a private offer for around the average price of £7,000 per acre. Despite this good offer, we felt it could do better. Soon after it went onto the open market, we had five bids over the £3.85 million guide, four from investors. We sold to the original private buyer – a farmer – at a premium of nearly 20 per cent, pushed by investor interest.

OUTLOOK

There is no prospect of land values falling soon. Good arable land is the commodity in demand from investors and farmers. As this abounds in the East, the outlook is more favourable here, though in these turbulent times it is impossible to tell what is around the corner.

THE NATIONAL CONTEXT

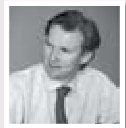
"With sustained demand, and in the absence of a significant increase of supply, values have remained solid," says Alex Lawson, Savills Director of London Farms and Estates. "With economic markets looking increasingly unstable, farmland remains attractive to conservative investors. Concerns about climate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

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

"We are seeing a two-tier market: £10,000 per acre sales grab headlines but are at odds with those 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 changes, to the Government's tax plans, for example, the market is set fair."

Contact Details

Christopher Miles
Farms & Estates
01603 229 235
cmiles@savills.com



Alex Lawson
London Farms & Estates
020 7409 8882
alawson@savills.com

Property highlights

A selection of farms and estates from Savills Eastern region

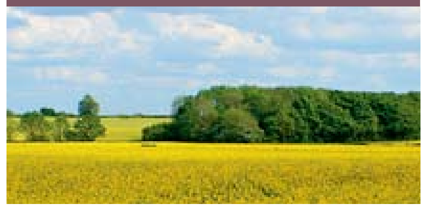
Exceptional all-round farming estate

Brook Hall Estate
Long Melford, Essex/ Suffolk border

◆ Principal 6 bedroom farmhouse with landscaped gardens ◆ 2 secondary houses ◆ Range of modern and traditional buildings ◆ About 1,443 acres

Excess £13 million
Contact: Savills Chelmsford 01245 269311

Commercial arable farm



Church Farm
Essendine, Rutland

◆ 6 bedroom farmhouse ◆ 2 ranges of farm buildings ◆ Arable and grassland ◆ About 543 acres

Guide £4.18 million
Contact: Savills Cambridge 01223 347 000

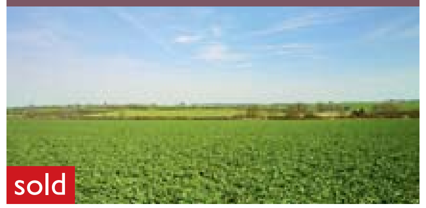
Ring fenced farm

Great Southwood Park Farm,
Hargrave, Suffolk

◆ 3 bedroom farmhouse ◆ 2 ranges of farm buildings ◆ About 680 acres

Guide £6.5 million
Contact: Savills Ipswich 01473 234 800

First class arable farm



Mill Farm
Wistow, Cambridgeshire

◆ Mixture of Grade 2 and 3 arable land ◆ About 543 acres

Guide £3.75 million
Contact: Savills Cambridge 01223 347 000

Living with nature

Kingfishers Bridge
Ely, Cambridgeshire

◆ 5 bedroom house ◆ Two 3 bedroom cottages ◆ Airstrip ◆ About 281 acres ◆ Established wetland wildlife reserve

Guide £2.3 million
Contact: Savills Cambridge 01223 347 000

Sporting and agricultural estate

The Kingston Wood Estate
Arrington, Cambridgeshire

◆ Manor House with 7 bedrooms ◆ Extensive gardens ◆ Gamekeeper's cottage ◆ 3 further cottages ◆ About 740 acres

Price on application
Contact: Savills Cambridge 01223 347 000

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)

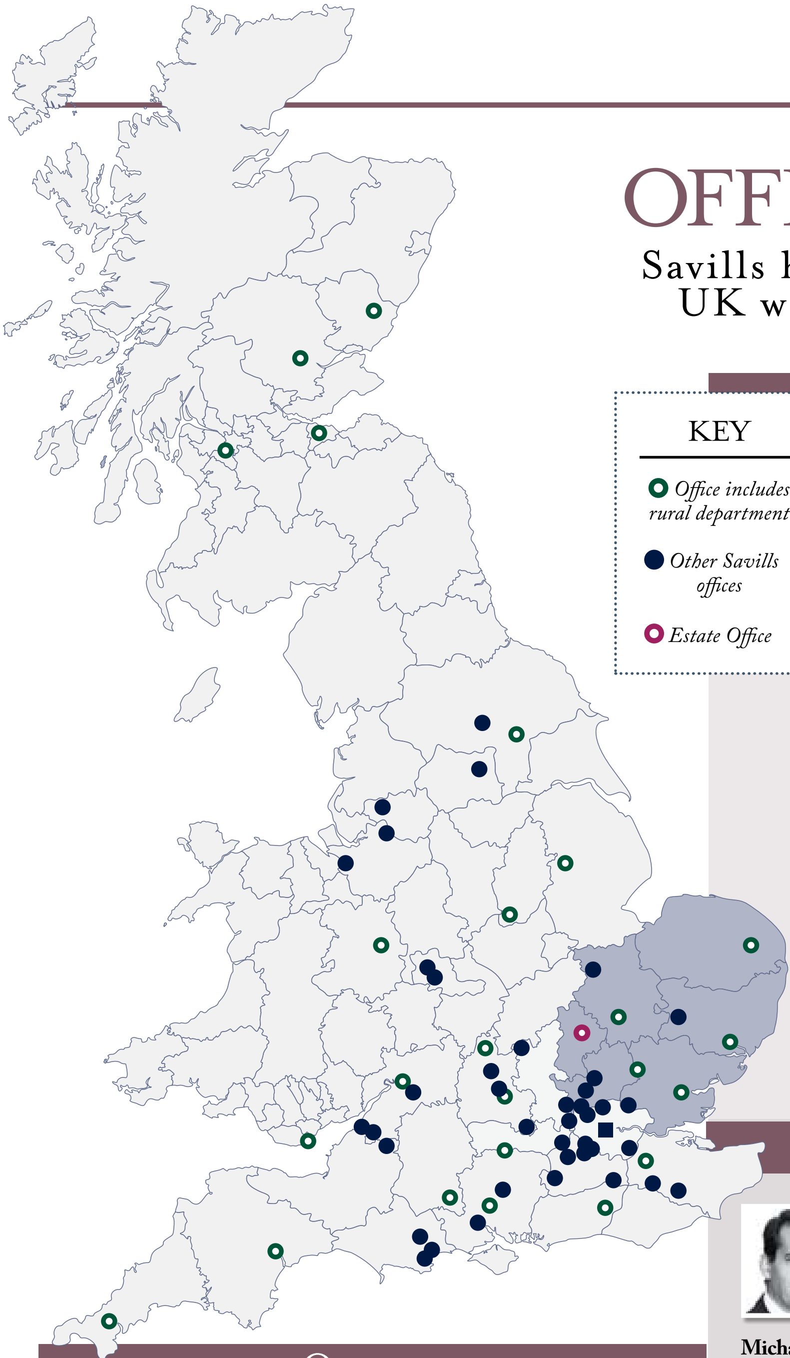
The knowledge

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



OFFICE DIRECTORY

Savills has more than 90 offices in the UK with 25 dedicated rural offices

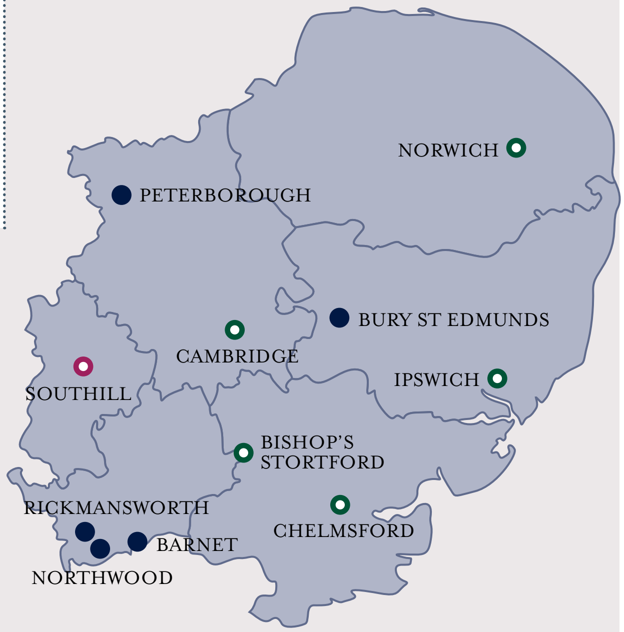
KEY

Office includes rural department

Other Savills offices

Estate Office

Eastern region



Offices

Bishop's Stortford
Chequers
19 North Street
Bishop's Stortford
CM23 2LD
01279 756 800

Cambridge
Unex House
132-134 Hills Road
Cambridge CB2 8PA
01223 347 000

Chelmsford
136 New London Road
Chelmsford
Essex CM2 0RG
01245 269 311

Ipswich
50 Princes Street
Ipswich
IP1 1RJ
01473 234 800

Norwich
Hardwick House
Agricultural Hall Plain
Norwich NR1 3FS
01603 229 229

Contact Details

Michael Horton
Ipswich
01473 234 813
mhorton@savills.com

Adrian Wilson
Cambridge
01223 347 231
awilson@savills.com

Simon Dixon Smith
Chelmsford
01245 293 249
sdixonsmith@savills.com

John Wootton
Bishop's Stortford
01279 756 802
jwootton@savills.com

Roly Beazley
Norwich
01603 229 215
rbeazley@savills.com