

WINTER 2011

ASPECTS OF LAND

SOUTH EAST





Welcome

...to the South East issue of Aspects of Land

The winter 2011 edition of Aspects of Land brings a selection of topical articles and news, which I hope you will find really useful. It comes at a time of challenge and opportunity in the South East's rural market.

The landscape of the agricultural and environmental sector is uncertain, with proposed CAP reforms that threaten to cap payments a concern for both estates and agribusinesses. Achieving a balance between food security and effective environmental management is a huge challenge for politicians and landowners. At the same time, borrowing continues to be difficult as banks remain cautious, and the moribund commercial market makes it hard for estates to know where to invest.

Nevertheless, there are still opportunities: land values continue to rise; demand for mid-market rental properties is increasing, and rents along with it; and guaranteed returns on investing in photovoltaics are set to make them all the rage as a source of renewable energy. And we are waiting with interest to see whether the current stock market volatility – bad news to many – will prompt big-spending investors to return to the land market.

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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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.

"Maintaining net incomes in these difficult economic times is no mean feat," says Ian Bailey, Savills Head of Rural Research.

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A clearer PICTURE

Analysing 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. It 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 discuss possible solutions. These can then be implemented with specialist advice and documentation available from legal counsel.

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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 will 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 reforms would go through unchanged. What we can be sure of is that bureaucracy would be increased – the proposals are also impractical in current UK farming structures.

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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 Mediation. 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 of the Tax Tribunal was handed

down in May and has become law because 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 account of a number of factors. It recognises that reduced business turnover and profitability do not mean

that a farmhouse ceases to qualify for APR. It also allows that the character appropriate test must consider the working farmer's approach to life. "This is a victory for farmers and landowners," says Clive. "If HMRC had won, the character appropriate test would be subject to the vagaries of profitability – and few farmhouses would qualify in bad years."

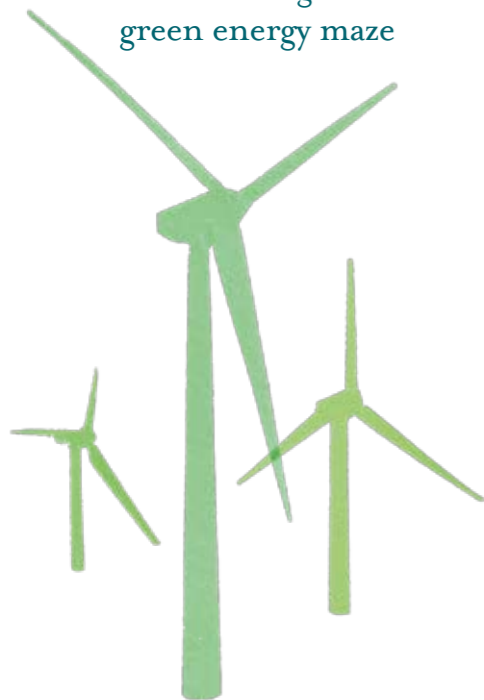
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POWER to the PEOPLE

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 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 now forms 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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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 1 September 1995).

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 potentially 100 per cent, which could be a significant benefit on an estate with rising let land values. 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.

ISSUES TO BE ADDRESSED ARE:

- STAMP DUTY LAND TAX
- CAPITAL GAINS TAX
- INCOME TAX & VAT
- CONNECTED PARTIES

Landowners should take this chance to review their tenancy asset register for opportunities to optimise APR from 50 per cent to 100 per cent.

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All change

Chris Huhne's Green Bill will have significant implications for rural property and 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, with rural landlords also greatly affected.

In summary, the Bill aims to slowly introduce changes to ensure greater energy efficiency and reduce carbon emissions from both domestic and business properties. Slowly is the key word here, with major changes not taking effect until 2018.

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 and voids 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.

Since it was first introduced in October 2008, all residential and business properties have needed an Energy Performance Certificate (EPC) when being marketed for sale or rent. The Property and Energy Professionals Association is zealously working to ensure that the Government requires an EPC for all domestic and commercial properties by 2015, rather than just those that are being marketed.

However, rural landlords should not be complacent. They are likely to need all the time between now and 2018 to manage and make improvements to their properties to bring them up to the required standard. This process could take much longer than they anticipate.

“Landlords should be proactive and assess their portfolios before the legislation affects values”

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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 to their questions. Is it going ahead? Is there anything I can do while I am waiting?

Transport Secretary Philip Hammond is due to announce the decision later this year on whether the estimated £17bn project will proceed. Because of the sheer scale of the project, HS2 will not go through the usual planning process, which would make it subject to lengthy Public Enquiries. Instead, the necessary legislation for its construction 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 that a number of properties that are 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 who apply are successful.

Savills HS2 team is working with the Savills residential offices located along the proposed route, including Solihull, Banbury and Amersham. They are currently advising property owners about what they need to do to apply for compensation through EHS.

Savills is well placed to help homeowners after carrying out work for clients affected by HS1, the Channel Tunnel Rail Link. So if you would like to discuss an application to the Exceptional Hardship Scheme, please contact the HS2 team or your Savills local office.

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The BUSINESS OPPORTUNITY that secured THE FUTURE of SYON HOUSE

Owners and managers of estates are always on the look-out for new opportunities, whether they aspire to be the next Goodwood or want to provide a venue for profitable events. All too often, though, it's about being in the right place at the right time.

In the South East, we are lucky in that proximity to London is often a reason for the phone to ring. On one managed estate, it has been its location in London that has led to an extraordinary opportunity that is set to change its financial circumstances

for generations to come. Syon House has been the London home of the Duke of Northumberland's family for over 400 years. Its 200-acre park is just 8 miles from central London yet has many of the things you would expect to find on a rural estate, from grazing cattle to redundant buildings. It was the latter that provided a major redevelopment opportunity for the estate.

Mid May this year saw the opening of the 137 bedroom, 5 star+ London Syon Park – a Waldorf Astoria Hotel in the grounds of Syon Park. This major development, which has taken over 10 years from

conception to completion, was complicated by the estate's designation as a Grade I listed park by English Heritage, as well as its location within metropolitan open land (equivalent to Green Belt), the presence of 14 Grade I and Grade II listed buildings and its designation as a conservation area.

As part of the negotiations, which helped persuade the local planning authority and English Heritage to approve the planning application, the hotel developer has funded the restoration of some of the historic landscape features in the park. These

include the Capability Brown lake, the Robert Adam-designed entrance oval to Syon House and the Grade II listed Duchess Gate.

More importantly, the rental income that the estate owners will receive from the hotel will provide an endowment to fund the planned restoration and ongoing maintenance of Syon House. The house contains arguably the

finest set of interiors designed by Robert Adam in the 1760s for the first Duke of Northumberland.

While amazing opportunities like this will not be relevant for many, the same issues arise for almost all projects, from strategy to promotion, through to planning, negotiation and agreement – with a little bit of luck along the way as well!

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Farmland review

With a modest increase in farmland values, the market is stronger and more stable in the South East

How is the farmland market performing in the South East? And what does the short-term future hold? Chris Spofforth, Savills Haywards Heath, looks at the key trends, sales and prices.

VALUES

So far this year, values have increased, but modestly compared with previous years. Increases were stronger in the first quarter but tailed off in the second. Prime land remains in short supply so can command over £7,000 per acre for arable and over £6,000 for grassland. The autumn market could be interesting, if stock market volatility and concerns about the global economy lead to competitive bidding, which will accelerate increases. There is no prospect of a decline in values.

WHO'S BUYING?

Farmers are looking to expand their acreage locally, as the rising cost of diesel prohibits travel between holdings. They are cautious, but in general they have accepted that values have increased significantly in recent years and they must pay for what they want.

The market for amenity farms slowed over the first six months of the year, but is now becoming more active as the London residential market gets stronger. Competitive bidding is achieving premium prices for some properties, but they must be pretty much immaculate and within easy commuting distance to attract this level of interest.

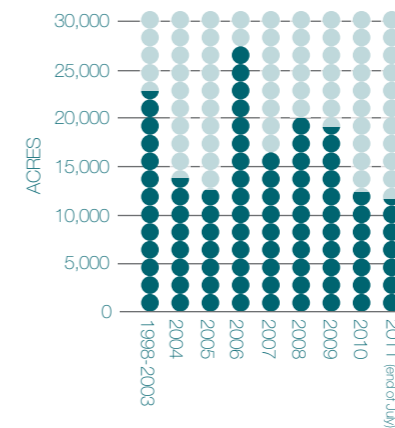
Large parcels of land with a minimal residential element attract interest from investors, but these are rare in the South East. We have 1,000 acres of predominantly bare arable land on the North Kent coast coming to the market this month, and I expect keen interest from institutions and farmers.

WHO'S SELLING?

Supply remains an issue, although, with a 36 per cent increase in supply this year



South East of England Publicly marketed farmland



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

Source: Savills Research

compared with the same period last year, it is less constrained than the previous two years. Commercial-sized blocks have been scarce for 12 months or so. We have seen a number of farmers retiring and some debt-related sales. Not forced sales, though; banks are scrutinising smaller borrowers more rigorously, and being more cautious about borrowers' ability to pay back their loans.

EXCITING SALES

We had quite a challenge with a lovely 300-acre farm in a superb location at Woldingham, Surrey. It would be a premium property, apart from the fact that illegally imported materials had been dumped on the estate for over 20 years, and enforcement notices were in place

for its removal. The job of clearing it would be beyond the means of private individuals, so we had to appeal to expert investors and involve other specialist Savills departments. Its guide was over £3 million.

OUTLOOK

I am quietly optimistic about the next six months. The key issue is how global events might affect demand for residential property, and that's unanswerable. Nevertheless, the land market appears stable and secure.

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. Nevertheless, some of the froth seems to have come off the market. That's not surprising; the 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 headlines, but they 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 and stable. Unless we see major changes – Government tax plans, for example – the market is set fair."

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Property highlights

A selection of farms and estates from Savills South East region

Beautiful downland farm



Randolphs Farm
Hurstpierpoint, West Sussex
◆ Grade II listed farmhouse
◆ Commercial office units ◆ Modern farm buildings ◆ Arable, pasture and woodland ◆ 118 acres

Guide £2.6 million
Contact: Savills Haywards Heath
01444 446 066

Private woodland estate



Crowsfield
Kingscote, West Sussex
◆ 5 bed house ◆ Stabling/grazing ◆ 31.84 acres of sporting rights ◆ 89.74 acres

Guide £1.575 million
Contact: Savills Haywards Heath
01444 446 066

Well located farm



Tillingdown Farm
Woldingham, Surrey
◆ 7 bed farmhouse ◆ 7 cottages
◆ 2 stable yards ◆ 308 acres

Excess £3 million
Contact: Savills Haywards Heath
01444 446 066

Sporting woodland



Biddenden Woods
Cranbrook, Kent
◆ Mixed woodland ◆ 178 acres in all
◆ As a whole or in 3 lots

Guide £700,000
Contact: Savills Haywards Heath
01444 446 066

Commercial farmland block



Cleve Hill Farm Graveney, Kent
◆ 916 acres of Grade 3 arable land in a ring fence ◆ 93 acres SSI permanent pasture ◆ Available as a whole ◆ 1,009 acres in all

Guide £6.25 million
Contact: Savills Haywards Heath 01444 446 066

Superb private residence



Bluebell Farm Seal, Kent
◆ Accommodation of 15,486 sq ft ◆ Detached cottage ◆ Office suite ◆ Excellent leisure complex ◆ 148 acres

Guide £6.95 million
Contact: Savills Haywards Heath 01444 446 066

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

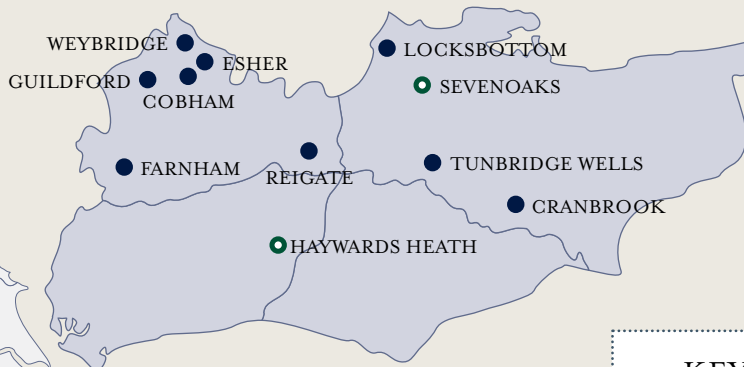
- Savills is number one in the UK Business Superbrand charts in the real estate sector, and has been for the last three years
- Savills is *Estate Gazette's* number one UK agent for the 11th year running
- Savills won the Best Corporate Website Award at the 2011 Property Marketing Awards
- Savills received 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

SOUTH EAST REGION



KEY

Office includes rural department

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Estate office

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