

WINTER 2011

ASPECTS OF LAND

.....
SOUTH WEST

savills



Welcome

...to the autumn 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 as the rural sector in the South West grows a little cautious.

Rising input costs are squeezing margins, and none more so than the price of energy and fuel, which should be at the top of all landowners' agendas. It is essential to develop a strategy for fulfilling long-term energy and fuel needs involving a variety of renewable sources. Government incentives make this the ideal time to address the issue.

But there is optimism too, and a wealth of opportunities. Land values continue to climb. The renaissance in domestic tourism makes farms and estates in the South West prime candidates for leisure diversification projects. The Government's localism agenda should devolve power back to local communities, allowing farmers and landowners to create schemes that can really help the rural economy, enhancing their centuries-old role as the heart of the community.

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.

"Target expenditure to ensure investment reaps rewards in coming years," advises Mike Pennington, Head of the Estate Benchmarking Survey Group.

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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, 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.

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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 became law as HMRC didn't 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 consider a number of factors. It recognises that reduced business turnover and profitability do not mean that a farmhouse ceases to qualify for APR. And it acknowledges that the character-appropriate test must take into account 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."

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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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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. 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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Getting your business ducks in a row

What you need to consider when embarking on new projects



Farmers and landowners are regularly considering business development opportunities to diversify and broaden their business base. Savills Rural Development Service is well placed to offer advice at all stages, from planning issues to how new businesses can be integrated to greatest effect.

A proposal could relate to a farm in the conventional sense, a new poultry unit or grain store. It might involve diversification, such as a farm shop, barn conversion or a renewable energy project, or perhaps new rural housing. As well as planning consent, there are business and value issues. Before embarking on a project, ask these questions:

- Will the development help my business and what are the risks?
- Can I mitigate its effect on the environment?
- Can I generate local support?
- What form of the proposal adds most value?

Renewable energy is currently a popular topic for agricultural businesses looking to add value to their enterprise. Although recent announcements about the dilution of Feed-in Tariffs have made some potentially lucrative large-scale schemes now look marginal, there is still the opportunity for smaller-scale schemes to directly benefit rural businesses.

There are many companies offering options for roof-mounted, small-scale solar schemes, from straightforward site leasing to design,

build and operate schemes and ventures in between. We can offer independent advice on these schemes to validate figures and claims made by these companies. Added to that, we offer impartial and professional advice on planning issues and how to structure these deals so the landowner or site provider has the input and control they need.

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In his role as a judge of the John Neason Progressive Farming Award, Mike Townsend has seen just how innovative farmers can be

The award recognises the ingenuity of farmers, a key driver of the long-term profitable future of their farms and the numerous other rural businesses and jobs which depend upon them.

PAST ENTRANTS HAVE INCLUDED:

- BOAT STORAGE, INCLUDING A SLIPWAY WITH LAUNCH AND RECOVERY FACILITIES
- A PLANT BOTTLING AND SELLING SPRING WATER
- A HYDRO ELECTRIC PLANT
- AN ON-FARM ORGANIC ABATTOIR
- A BARN CONVERTED INTO A BESPOKE WEDDING VENUE
- A MOBILE WOOD-FIRED BREAD OVEN USED AT SHOWS TO EDUCATE CHILDREN

A number of entrants have demonstrated a variety of imaginative ways to add value to farm produce, including cookery schools, mobile catering units, farmers markets, ice-cream making and farm shops. There is a massive opportunity to grow this sector and a particular synergy with the tourist sector which is the region's other principal economic driver. Selling local and buying local helps protect the environment by using fewer food miles. It also strengthens local economies and supports communities.

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On the MARGINS

Discounted interest rate margins through AMC

Recently AMC has secured European Investment Bank (EIB) funding to provide discounted margins for farmers looking to borrow for certain farm-investment projects.

To promote business sustainability and growth within the Small to Medium Sized Enterprises (SME) sector across Europe, the EIB is providing funding to certain lending organisations at low rates in return for discounted onward lending to SME customers.

AMC has been able to access this funding, enabling discounted lending margins on loans for qualifying farm investment projects such as:

- BUILDINGS** General purpose sheds; hay/straw storage; livestock housing; grain stores; potato stores; chicken sheds; milking parlours.
- EQUIPMENT** Grain drying; robotic milking equipment; milking parlour equipment; chicken shed equipment; vegetable-processing lines; milk-processing equipment.
- VEHICLES** Such as tractors; combines; potato harvesters; lorries.

- RENEWABLES** Photovoltaic panels; wind turbines; water turbines; anaerobic digesters.
- STORAGE** Reservoirs; slurry stores.
- GENERAL** Opening or expansion of a farm shop; orchard establishment; dairy cows; purchase of wholesale business (maximum €1m); farm field draining; research and development.

The funding pool is a limited pot and so lending will be on a first come, first served basis. As well as offering a competitive rate, many farmers and landowners are attracted by AMC's "lend and leave" policy – once the loan has been set up there are no annual reviews.

If you have a proposal you want to discuss in confidence, please contact Penny Dart or Becky Hammett as soon as possible.

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Give me a tenor

Concerts could be the way forward for rural estates



If you are looking for innovation – from historic re-enactments to literary festivals and concerts – then Britain's landowners have proved adept at finding new sources of income. Rural estates are now positively humming with enterprise and diversification.

On 9 July 2011, opera singer Russell Watson performed to an audience of 3,000 at the Castle Hill Estate in Devon. It was the first such event organised on this Savills-managed estate and it was a huge success.

The aim was to establish Castle Hill as a regional venue while not losing, and hopefully making, money. Financial backing from local businesses including Savills and support from The Plough Theatre enabled the estate to pursue this strategy. The main return to the estate activities is in the form of contacts made and the proving of the venue.

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, give 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 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 must still look at the

Well PLANNED

A new planning policy framework should offer great opportunities for rural development, says Tom Rattray, of Savills Truro

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

The new proposals should give landowners much greater freedom to build farm

dwellings, as well as new housing or commercial developments to meet local requirements. In the future, it looks as though it will be much easier to convert traditional buildings into houses, and to build or extend agricultural units.

Where the local parish is sympathetic, we are hoping the NPPF will decide to streamline the planning process, by-passing 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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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

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 to manage the scheme.

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Farmland review

A general shortage of commercial farmland in the South West has led to good increases in value

How is the farmland market performing in the South West? And what does the short-term future hold for landowners and investors? Penny Dart, Savills Exeter, looks at the key trends, sales and prices.

VALUES

Commercial farmland in the South West has seen good increases in value this year, thanks in part to its scarcity. Larger blocks of better-quality arable land are consistently fetching around £7,500 per acre, although the biggest increase has been in the value of grassland. Overall, the growth of land values tapered off as the year progressed, with a 3.8 per cent increase during the first quarter of 2011 slowing to 0.9 per cent in the second quarter. Overall farmland values here are currently averaging between £5,500 and £6,250 per acre, underpinned by a fairly limited supply and energised by high wheat prices.

WHO'S BUYING?

Mostly farmers, but some money from outside the sector as well: investors looking for a safe haven for their capital. Farmers are buying both locally and regionally, and we are seeing good levels of interest in complete farms from outside the region, the more commercial the better. Investors are particularly keen on land that has some amenity value. Foreign investors are also playing a significant role in the South West region.

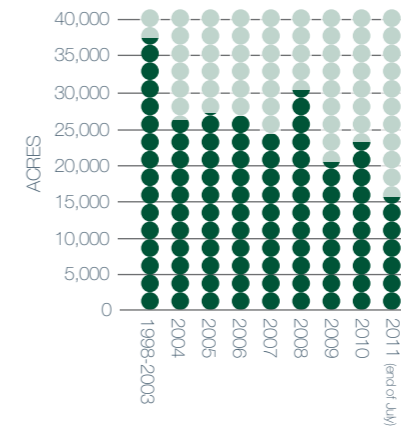
WHO'S SELLING?

The three Ds – death, divorce and debt – are, as ever, the principal motivators for sales. Debt does not feature as prominently as one might expect at this time of ultra-cautious banks. However, historically low interest rates are undoubtedly masking some potentially unsustainable situations. Land is in such demand that for some it would be sensible to consider selling before interest rates rise and whilst they are still in control.



South West of England

Publicly marketed farmland



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

Source: Savills Research

EXCITING SALES

The Blachford Manor Estate near Ivybridge, in the Dartmoor National Park, is one of the biggest sales the South West has ever seen – and for sheer scale and glamour is one of the most exciting sales we have handled. With a superb house and 734 acres (including 502 acres of pasture and arable land and 117 acres of woodland), and a further 281 acres of sporting rights, it attracted huge interest as a rare opportunity in the region. It was offered at a guide price of £8 million.

OUTLOOK

Top-quality residential farms are likely to continue to sell well, and good commercial

blocks will retain their popularity in the face of the unpredictability of world stock markets. I don't anticipate any major changes from the current situation, with values remaining stable or continuing to rise gradually.

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 amazing 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 they are at odds with the many that achieve their guide prices or less. This can flatter the market, and means that expectations must be balanced with reality.

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

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Property highlights

A selection of farms and estates from Savills South West region

Outstanding private estate



Blachford Manor
Southern edge of Dartmoor National Park, Devon
◆ Grade II* listed manor house
◆ Staff and guest accommodation
◆ 2 cottages ◆ Stables and outbuildings ◆ Parkland and woodland ◆ About 734 acres

Excess £8 million
Contact: Savills Exeter
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sold

Sporting farm



Exmoor
Dulverton, Somerset
◆ Farmhouse ◆ 2 bedroom cottage
◆ Productive and attractive farmland
◆ About 182 acres

Guide £1.95 million
Contact: Savills Exeter 01392 455 755

Productive arable



Houghton Farm
Kingsbridge, Devon
◆ Potential for new farm holding ◆ Arable and grassland ◆ Available as a whole or in 3 lots ◆ About 200 acres

Guide £1.2 million
Contact: Savills Exeter 01392 455 755

under offer

Stunning coastal farm



Village Farm
East Portlemouth, Devon
◆ Superb arable & grassland ◆ Farm buildings ◆ Available as whole or in 6 lots ◆ About 175 acres

Guide £1.25 million
Contact: Savills Exeter 01392 455 755

sold

Exmoor beauty



Fernham Farm Edge of Exmoor, Devon
◆ Farmhouse ◆ 3 bedroom cottage ◆ Farm buildings ◆ Arable/grassland ◆ Available as whole or in 2 lots ◆ About 234 acres

Guide £2 million
Contact: Savills Exeter 01392 455 755

North Cornwall farm



Trevear Farm Nr Padstow, Cornwall
◆ Farmhouse ◆ 3 bedroom cottage ◆ 3 bedroom bungalow
◆ Traditional barns with planning ◆ About 77 acres

Guide £2 million
Contact: Savills Truro 01872 243 222

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

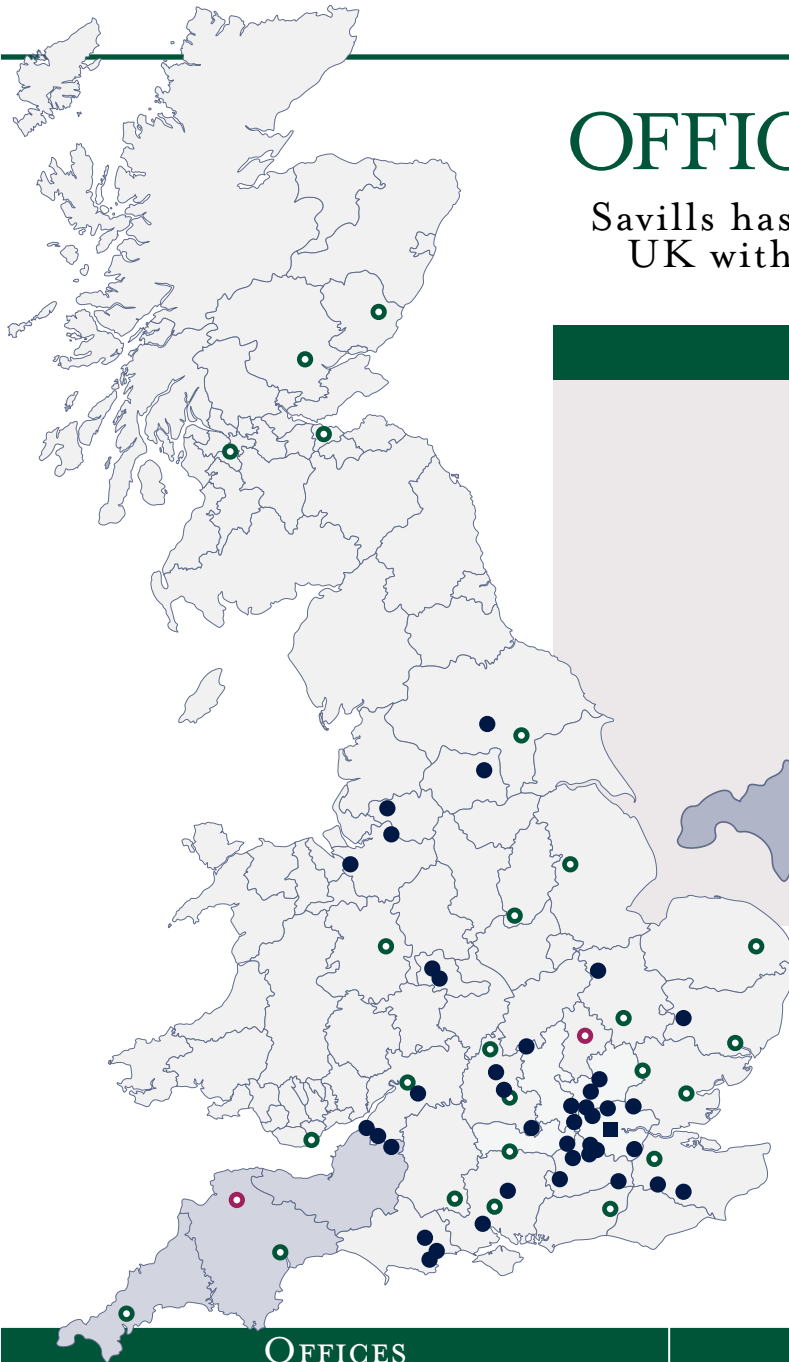
Savills has a dedicated rural research department, which has been operating since 1987

Facts & figures

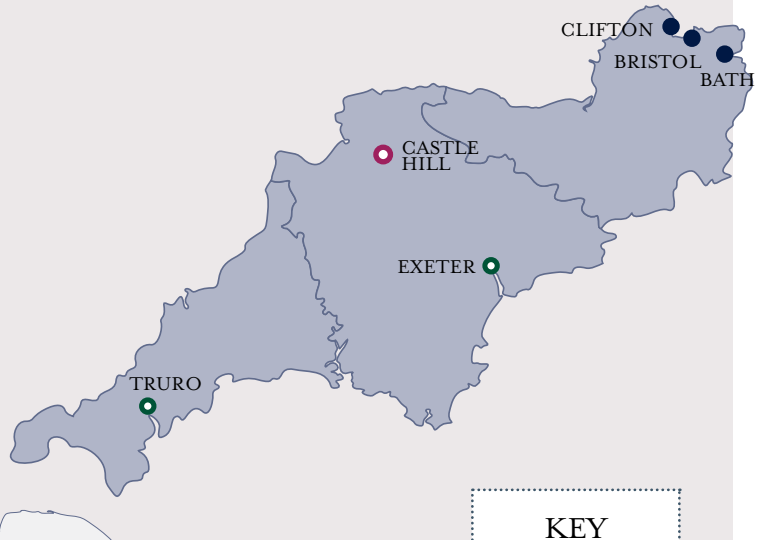
- Savills is number one in the UK Business Superbrand charts in the real estate sector, and has been for the last three years
- Savills is *Estate Gazette's* number one UK agent for the 11th year running
- Savills won the Best Corporate Website Award at the 2011 Property Marketing Awards
- Savills received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

OFFICE DIRECTORY

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



SOUTH WEST REGION



KEY

- Office includes rural department
- Other Savills offices
- Estate office

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