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Land Business

FARMING ESTATE MANAGEMENT SALES

IS
THIS

THE
MOST

CONNECTED
VILLAGE

IN BRITAIN?

STRUTT
& PARKER



PAGE 10

The big picture

Nicholas Wills of the Miserden Estate in Gloucestershire (on the cover). The installation of a biomass-fuelled district heating system, 4G mobile telecoms mast and fibre-optic broadband has revolutionised life for the estate and its tenants.

Land Business

FARMING ESTATE MANAGEMENT SALES

Welcome

A week is a long time in politics, apparently. Therefore, the time since June's historic Brexit vote must be an eternity – and yet there is still uncertainty surrounding what rural Britain will look like once we leave the EU. However, what is abundantly clear is that farmers and landowners must now do some serious thinking to prepare for the challenges – and the opportunities – that will emerge. We discuss what lies ahead on page 24.

The tranquil Cotswold village of Miserden feels a million miles away from the tumultuous world of politics. However, it too has undergone something of a revolution. Following a hugely significant modernisation project, residential and business tenants now benefit from biomass district heating, 4G mobile communications and fibre-optic broadband, making the village an even more attractive place to live and work. On page 10, read how we worked hand in hand with the Wills family and Miserden Estate to bring this rural idyll into the 21st century.

Elsewhere in this issue, we look at the renaissance in UK forestry (page 18), which has seen excellent annual returns over the past decade. Earlier this year, Strutt & Parker joined forces with the specialist forestry consultancy John Clegg & Co. This combined expertise will enable our clients to better manage their woodland assets and unlock this increased value.

We hope you enjoy reading Land Business. We value your feedback – please visit struttandparker.com/land-business-survey or complete and return the enclosed form to tell us what you think of this issue.



JAMES FARRELL
HEAD OF ESTATE &
LAND MANAGEMENT



MICHAEL FIDDES
HEAD OF ESTATE
& FARM AGENCY



WILL GEMMILL
HEAD OF
FARMING

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Please share your thoughts about this issue of Land Business via our online survey at struttandparker.com/land-business-survey, or complete and return the enclosed form

IN THE FIELD

NEWS & VIEWS FROM STRUTT & PARKER

Why modern villages are the place to be

Strutt & Parker's research publication *Housing Futures: The Village Revival* focuses on the concept of the modern village and the growing desire to live and work there.

Our survey found that 21% of respondents who are looking to move want to live in a village, making it the most sought-after environment. This is driven by people seeking neighbourhood safety (86%), space between neighbours (58%) and a strong community feel (48%).

The modern village has all the traditional elements of British rural life – a local school, an active community, a shop and a pub – but is also amenity-rich with good transport connections.

To ensure the economic viability of the modern village, the internet is fundamental: 49% of respondents cited good broadband as a main motivation for moving, followed by 38% for mobile connectivity (read how Miserden Estate has rolled out a new 4G mobile network and fibre-optic broadband on page 10).

Also key are facilities that allow villagers to combine their work and rural lifestyle. One example is Flexispace: flexible retail/work spaces that appeal to freelance workers – such as a local coffee shop that also provides office space. Another is Makerplaces: community buildings in which creative people and designers share space and make new products, as well as offering an alternative venue for village events.

Perhaps the most important element is the people. The best modern villages will have a mix of 'tribes' making up a vibrant, dynamic community. These

include the Rubies (rural newbies), Elderflowers (baby boomers who have lived in the village for many years) and Rusticarians (rural, tech-savvy entrepreneurs).

The findings mean that, in order to attract and retain tenants, the modern village needs to offer a range of housing options. Our report provides valuable insights into these evolving demands and the specifications landlords should consider when preparing cottages to let or developing new space.

Visit struttandparker.com/housingfutures to read more and to download the report.

Vanessa Hale, Research



Telecoms turmoil

The telecommunications industry continues to evolve, with recent changes making negotiations more complex for anyone with a telecoms installation on their property.

The main operators have split into two groups – MBNL (EE and Three) and CTIL (Vodafone and O2) – and earlier this year, BT bought EE, raising complications on some sites where BT held their own licence as a separate site sharer.

Amid the turmoil of network consolidation and joint ventures, the once ‘safe’ leases with Airwave, which currently manages the Emergency Services Network (ESN), also face uncertainty. The government has awarded the new ESN contract to EE, which is acquiring new sites for this network. The phasing out of the Airwave sites will run until 2020, but it is not yet known if they will be used for alternative purposes.

In May, the government announced reforms to the Electronic Communications Code following operators’ claims that they are unable to roll out networks because landlords are – allegedly – holding them to ransom. The key issues for landowners are: that operators will have the right to assign, upgrade and share sites irrespective of lease terms, coupled with unlimited access; for the rental valuation to ignore the benefit of such rights; and an element of retrospectiveness so existing leases will not be exempt from the code.

The operators would also have landlords believe that the market is in relative freefall. However, our latest Telecoms Survey – available at struttandparker.com/telecoms2016 – shows further year-on-year rental growth. Therefore, landlords should seek specialist advice before beginning telecoms negotiations.

Robert Paul, Land Management

Game shooting forecast to grow

The results of the *Game Shooting Census 2016*, compiled annually by Strutt & Parker and GunsOnPegs, suggest that the shooting industry is set to grow over the next year.

Answers from the survey's 5,000 respondents, a third of whom were aged 25-45, offer a unique insight into the health of a sport that is part of the fabric of the British countryside. With 89% of respondents saying they are planning to spend the same or more this coming season, it is clear that the industry is in good health.

There is also evidence that shooting is something that can be enjoyed by people on a wide range of budgets, with a huge variation in what each gun spends, both per day and over a season. The average gun plans to spend just over £5,100 this season – but nearly 17% of respondents said they enjoy their hobby while spending £1,000 or less.

Guns who spent less than £1,000 shot for an average of 10 days last season. Respondents spending £1,000-£10,000 shot for an average of 14 days, and spent £318 per day. Those who spent more than £10,000 shot an average of 22 days, spending the equivalent of £1,029 per day.

Rhodri Thomas, Land Management



Contract farming income falls

Strutt & Parker's annual survey of the performance of contract farming agreements (CFAs) has highlighted a 23% drop in returns to both the farmer and the contractor for the 2015 harvest.

The provisional results from the *English Contract Farming Agreement Survey*, produced by our Farming department and Jason Beedell of our Research team, showed that higher yields and cost savings were not enough to offset lower commodity prices.

The survey includes the financial results of 44 CFAs, covering more than 10,000ha of English farmland used for arable and root crops production. It has been running since 2007 and is one of the most comprehensive datasets about CFA performance in the industry.

Analysis showed that a 19% fall in commodity prices caused gross income to fall to £1,175/ha – the lowest level since 2009. The average income was £328/ha to the farmer and £319/ha to the contractor – below the five-year average of £420/ha. The average contractor's charge – the fixed payment the contractor

receives for providing labour and machinery – was £269/ha.

Despite these results – which were not unexpected, given the pressures on farm profitability over the past two years – CFAs remain a good option. Over the long term, farmers received an income slightly above a typical rent for a three- to five-year farm business tenancy (see graph on page 30). They also retained the active involvement, management control and tax benefits associated with being a trading farmer and had lower working capital requirements.

With commodity prices still under pressure, in future it will be important that agreements are sustainable for both parties, requiring a realistic contractor's charge and farmer's retention. The best agreements are those where both sides are incentivised by the same outcomes: producing high yields, controlling costs and meeting the farmer's objectives for sustainable land management.

Visit struttandparker.com/knowledge-and-research/CFA2015 to read the full results of the survey. **Will Gemmill, Farming**

News in brief

460,000

The amount of land in acres across England for which the Strutt & Parker Farming team submitted Basic Payment Scheme applications in 2016.

Will Gemmill, Head of Farming



CLA launches rural conference

Strutt & Parker is sponsoring the CLA's first-ever rural business conference. Taking place on 6 December 2016 at Church House Conference Centre in Westminster, *Rural Business 2030: Unlocking Investment, Unlocking Potential* will bring together businesses and policymakers to discuss practical ways to achieve a robust, productive and sustainable rural economy in 2030. See cla.org.uk/conference2016 for more details. **James Farrell, Head of Estate & Land Management**

NEW EMISSIONS TARGET

This summer, the government adopted the fifth 'carbon budget' as part of the UK's transition to a low-carbon economy. This sets a target of reducing annual emissions to 57% below 1990 levels by 2032. To achieve this, the budget specifically prioritises increasing the uptake of district heating networks and heat pumps.

Alexander Creed, Head of Energy

“

WE HAVE A MASSIVE OPPORTUNITY... BUT IF IT'S NOT SEIZED, WE RISK EXPORTING OUR ABILITY TO PRODUCE FOOD TO OTHER COUNTRIES

”

Meurig Raymond, NFU President, on increasing the UK's self-sufficiency following Brexit

2016 BPS RULE DROPPED

Farms claiming under the 2016 Basic Payment Scheme will not now need to declare the 'accountable people' in the business. Previously, claimants had anticipated having to provide details of everyone who shares in the profits or losses of the business in order to improve transparency about who benefits from CAP funding.

George Chichester, Farming



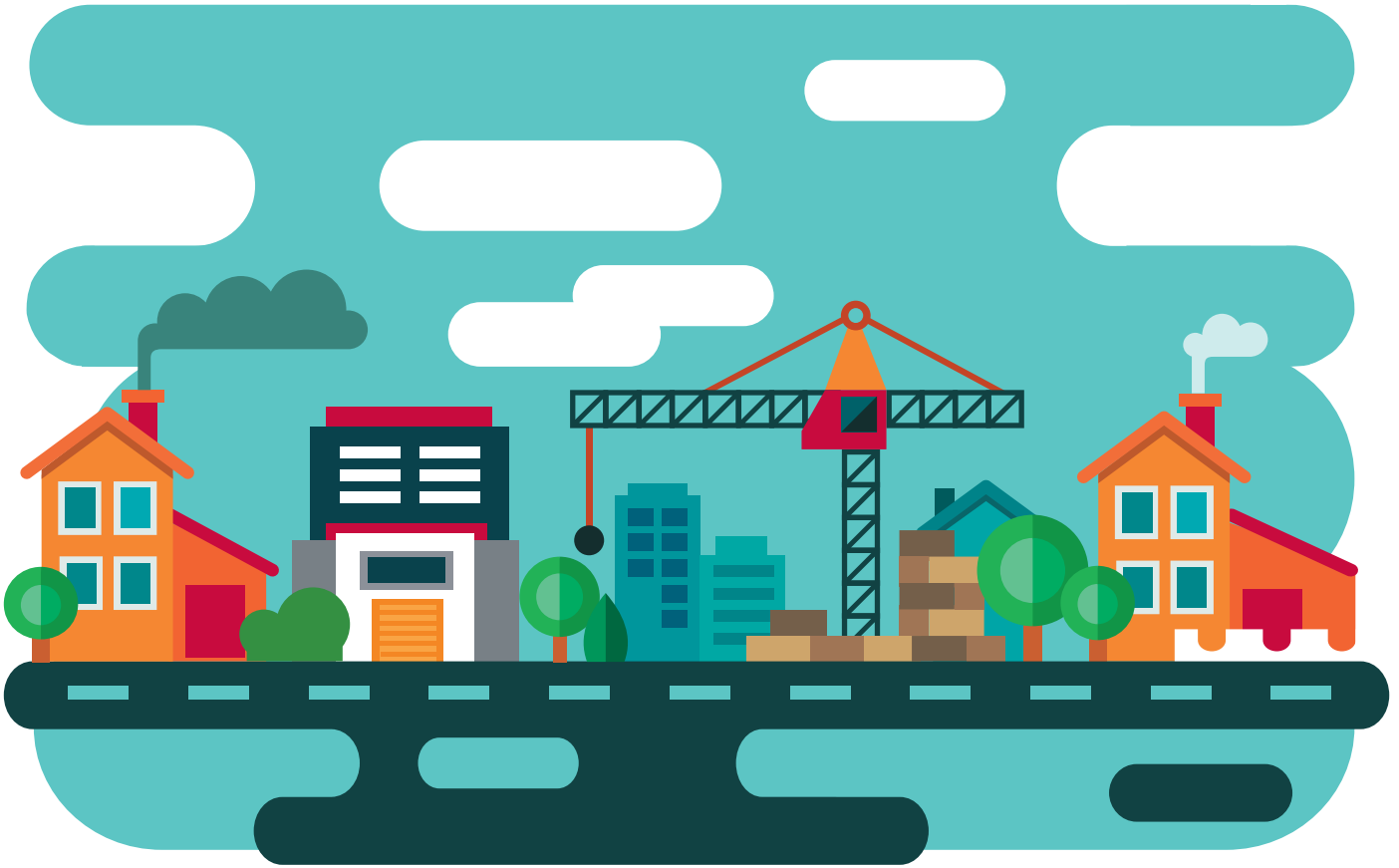
Tup an ewe for the Addington Fund

The Addington Fund - the charity for farming families that Strutt & Parker supports - has launched a new initiative, TUP 1 EWE 4 addington@15, to mark its 15th anniversary. Ian Bell, Director of the Addington Fund, said: 'We are asking that, this autumn, sheep farmers tup one ewe and sell it as a couple in the spring, or sell the progeny as a finished or store lamb later in the year, allowing the proceeds to come to the charity.'

INTERESTING TIMES

With the Bank of England cutting the base rate to 0.25% this summer, interest rates for borrowing are at an all-time low. Landowners should therefore consider renewing their current borrowing or restructuring debt to take advantage of the historically low rates. Now is also a good time for farms and estates to consider borrowing additional funds to invest in alternative sources of income in order to spread their exposure to different markets, or to take hardcore debt out of an overdraft and onto a fixed-rate or variable loan - the cost difference is marginal and there is no annual fee. This could also be an opportunity for clients to choose a different lender that is more suitable for their needs, whether this is a 'lend and leave' approach or flexibility on when repayments can be made.

James Hole, Land Management



“
 STARTER
 HOMES WILL BE
 RECOGNISED AS
 AFFORDABLE
 HOUSING
 ”

New Planning Act opens the door on housing for landowners

The new Housing and Planning Act introduces a number of significant changes relating to starter homes, permission in principle and neighbourhood planning.

The act, which received Royal Assent on 12 May this year, makes formal provision for starter homes, which are now defined as properties to be sold at a discounted rate of at least 20% of market value, with a price cap of £250,000 outside Greater London and £450,000 within.

Importantly, starter homes will be recognised as affordable housing, and will therefore count towards affordable housing provision. This, alongside changes to national planning policy, is expected to open up opportunities for promotion of starter homes on sites where private market housing is unlikely to achieve planning permission.

The act also includes ‘permission in principle’, which will be granted on land allocated through local or neighbourhood plans, or by specific application on sites of fewer than 10 units. An application for technical details consent will be required before development can proceed.

Local authorities will also be required to prepare, maintain and publish a register of brownfield land, identifying sites suitable for development to which the permission in principle will apply.

The act therefore provides landowners with additional opportunities to promote land through local and neighbourhood plans, as well as opportunities associated with the new permission in principle.

The Strutt & Parker Planning team continues to monitor developments, and is well placed to advise clients on potential opportunities.

John McLarty, Head of Planning

SETTING STANDARDS FOR ENERGY EFFICIENCY

“

LANDLORDS MUST ACT NOW TO MEET ENERGY STANDARDS - OR FACE A HEFTY FINE

”



KIERAN CROWE,
PARTNER AND ENERGY ENGINEER

The Green Deal may be dead in the water, but the government’s drive to improve energy efficiency and lower the UK’s carbon emissions from the private rental sector continues.

From 2018, every landlord in England and Wales must ensure their buildings meet new energy standards or risk fines of up to £150,000 per non-domestic property and £5,000 per domestic property. Similar requirements exist for large non-domestic buildings in Scotland, though a domestic requirement is yet to be finalised.

Under the minimum energy efficiency standards (MEES), introduced in the

Energy Act 2011, most properties will need an Energy Performance Certificate (EPC) rating of E or better.

Like national emissions targets, MEES are enshrined in UK law and will therefore be unaffected by the decision to leave the EU. From 1 April 2018, the regulations will cover new or renewed leases on domestic and commercial properties. From 2020, MEES will apply to all domestic properties; from 2023, they will cover all commercial leases.

What is clear from the government is that MEES are something of a moving target. The ambition is to push the private rented sector to ever-greater efficiency standards – so what is rated as an E on an EPC today may well be an F come 2020.

It’s not too early to start preparing for this potentially expensive and time-consuming change. And, given that the targets are evolving, it may be worth investing now to reach a level E or better to avoid having to go through the process again in a few years’ time.

First, landlords need to know which properties require an EPC. When EPCs were introduced, many people rushed out to get them on buildings that simply didn’t need to be rated.

Second, landlords should understand which properties are at risk for the first tranche of MEES. There are exemptions, for example if a tenant refuses to allow improvements, or if the lease is for less than six months.

Finally, landlords should investigate what is needed to meet the required standards. This may involve improving insulation, a new boiler or installing double glazing. Renewable heating systems such as heat pumps can make a big difference, as can solar panels.

One exemption from MEES will be regarding the financial viability of implementing measures. The final details are yet to be confirmed, but these will either provide a maximum cost for a

landlord (for example, £5,000 per property), or a minimum payback time (perhaps five to seven years). Either way, we expect that landlords will have to invest in their properties and that our estimated average cost of £3,000 is unlikely to be above any threshold.

There are still some funding opportunities, however. There is no reason why tenants can’t apply for roof insulation, for instance, if they are on low incomes or benefits, and gas companies may give discounts to connect fuel-poor homes to the mains.

Another issue is the quality of EPCs. It’s estimated that as many as 50% of rural EPCs made before the rules were tightened up in 2012 are inaccurate – and many will underestimate the efficiency of homes. Our advice is to carefully check EPCs issued before that date and consider having them redone.

However, a blanket application of EPCs to all buildings should be avoided. The appointment of an experienced adviser is critical, particularly as exemptions exist for some types of leases.

Whatever you do, it’s vital to act now to put a strategy in place as procrastination could prove extremely costly. Visit struttandparker.com/services/energy to see an EPC Timeline, which sets out the dates that landlords must keep in mind. ■

kieran.crowe@struttandparker.com

**BIOMASS
BOILER**

SUSTAINABLE,
LOW-COST HEATING
FOR TENANTS

**4G MOBILE
COVERAGE**

SUPER-FAST
CONNECTIVITY

WELCOME TO THE 21ST-CENTURY VILLAGE

Through foresight and teamwork, the Cotswold estate of Miserden has been transformed from a pretty but isolated rural village to a fully connected, sustainable community

WORDS VICTORIA BROOKES PHOTOGRAPHY ALISTAIR CLARK & BEN GOLD

**NEW MAINS
WATER PIPES**

IMPROVED WATER
PRESSURE



**FIBRE-OPTIC
BROADBAND**

HIGH-SPEED
INTERNET



To all outward appearances, the beautiful village of Miserden in Gloucestershire, with its 17th-century manor house, pretty stone cottages and unspoiled countryside, hasn't changed in decades. But in the past year, this quiet corner of the Cotswolds has undergone a series of significant changes that have brought it firmly into the 21st century.

Comprising around 2,900 acres in the Cotswolds Area of Outstanding Natural Beauty, the Miserden Estate has been owned by the Wills family since 1913. Its business centres on an in-hand farming operation, along with residential and commercial property – with some 80 let properties in and around the village. 'The estate has always been built with a strong ethos of contributing to the community, and sustainable agriculture and practices – while keeping an eye on the future,' says Nicholas Wills, who is in the process of taking over its management from his father.

Rather than allowing the village to become a dormitory for people working in the nearby towns of Stroud, Cirencester and Cheltenham, the Wills family are committed to keeping their small community alive by attracting a diverse population – all prospective tenants are interviewed by Nicholas' father, Major Tom Wills, to ensure they 'have the village at the heart of what they want to do' – and by investing in its future.

As in many rural locations, communications infrastructure has become increasingly important – a 'fourth service' alongside gas, electricity and water – in attracting people to the area to live and work. Until recently, mobile reception in Miserden was unreliable at best, and non-existent at worst. 'There was no signal at all,' says Jonathan Cobb, who runs the village post office and shop. 'You had to walk up and down the road with your phone in the air trying to find one.'

Last year, the estate was approached to erect a 4G mast on the edge of the village as part of a government-led scheme to fill in gaps in the mobile coverage network. Despite this not being perhaps the most attractive addition to the landscape, 'the Wills family's view was that if the parish and the tenants want it, then they should have it as a modern service,' explains Richard White, Partner in Strutt & Parker's Land Management team and managing agent for the estate.

The mast was completed in December – and the impact was immediate. 'Having 4G and reception everywhere is quite a revelation,' says Nicholas. Tim Hardy, a resident of Miserden for 20 years, who also runs a garden design business from the village, agrees. 'Quite a few people didn't even bother having a mobile phone at all before because there was just no point,' he says. 'But with the mast going up, it's just extraordinary. The 4G reception is actually faster than the broadband we had.'

The heat is on

Broadband speed has been another challenge – and one that has been solved as a result of another, much larger project: to install a village-wide biomass heating system.

“

AS MISERDEN IS
A SMALL VILLAGE
SURROUNDED BY
FORESTRY, HAVING
A BIOMASS BOILER
SEEMED LOGICAL

”

With no mains gas supply, most properties had oil-fired heating, which had become prohibitively expensive in recent years. Along with concerns for its tenants facing unaffordable bills, the estate was keen to diversify and find an alternative income source.

'The biomass project has been a long time coming – we've been talking about it since 2012,' explains Nicholas. 'Our ethos again

played a part in it: with regard to Miserden being a small, sustainable, nucleated village surrounded by forestry, it seemed like a logical step.'

As part of the succession planning, Strutt & Parker was commissioned to undertake a strategic review that highlighted all the aspects of the estate where the team needed to invest time and effort. 'As well as future-proofing the village, the biomass scheme was about moving assets into trading activity to help protect them from Inheritance Tax, and generate income and profits,' Richard explains.

He brought his colleagues from Strutt & Parker's Energy team on board, who designed and developed the project, appointed an installer and supervised the installation. The result is a purpose-built boiler house on the edge of the village containing two 360kW biomass boilers that heat water in a 20,000-litre tank. Two pumps then distribute the hot water to the 38 properties close enough to be connected to the system. Each property has a meter, ensuring tenants only pay for the heat they use, and the estate has committed to produce heat for less than the price of oil.

'We'll monitor the oil price twice annually and make sure we're below that,' says Nicholas. 'It will also make a huge difference to tenants because of the way payments are structured: they'll be able to pay for their heating in

Clockwise from below: the 4G mast overlooks timber that will fuel Miserden's biomass boiler; the boiler house; typical rental properties; Nicholas Wills. Right: many tenants both live and work in the village



monthly instalments, so they won't have that shock of a £1,000 oil bill in the autumn.'

Following a phased roll-out, the scheme is fully operational, and tenants are already delighted at the prospect of cheaper bills and the ability to spread the cost throughout the year. 'The biomass boiler means that I can actually put the heating on in here,' says Kevin Allin, landlord of the village pub The Carpenters Arms. 'I run a small business, and putting my heating on before cost me a fortune because I was on Calor gas bottles. I predict it's going to halve my bill.'

Tenant engagement was one of the concerns at the start of the project, but the team held an open forum in the village hall and regular meetings to keep people updated. It took six months to construct the energy centre and lay 2km of heat mains around the village, with the furthest property located 800m away from the boiler room.

'The hardest part was working with the ground conditions, which can change dramatically over very short distances,' explains Kieran Crowe, Partner and Energy Engineer at Strutt & Parker. 'The groundworkers worked really hard to overcome that. What was great was that we maintained good relations between all parties. Half of construction is personality: if you can get on with people, you can get on with the job.'

Making connections

One huge advantage of those challenging groundworks, however, was the opportunity to lay ducting for other services – including sorely needed fibre-optic broadband. 'Trenching is the biggest cost because of the hardness of the ground,' says Kieran, 'but then you have the opportunity to start to put in other services such as broadband and cable TV.'

A third-party provider, Voneus, laid the fibre-optic cables, and is now in the process of agreeing contracts with tenants. As a result, broadband speeds in the village will increase from just one or two megabits per second to a predicted 50-60Mbps.

'The fibre-optic opportunity was one of the big things for us,' says Richard. 'Other estates and villages have the challenge of making the investment required to install fibre-optic cables, but we had already done the trenching



Clockwise from top left: Kieran Crowe of Strutt & Parker's Energy team managed the biomass boiler project; the 17th-century manor house; a tree-lined avenue on the estate. Below: Strutt & Parker's Richard White

as part of the biomass project. We couldn't really have envisaged at the start of the process how incredibly valuable that would be to us.'

A recent let wouldn't have happened, Nicholas believes, without the fibre-optic network. 'Fast broadband is important for appealing to the younger tenant,' he says. 'We've secured a tenancy with a couple with young children who both work from home as well as abroad, and I think the speed of the broadband really was a deciding factor.'

The trenching also enabled improvements to be made to the mains water supply, with a new cold-water feed to 20 properties to solve low-pressure issues.

Chipping in

The biomass scheme makes financial sense for the estate, too, thanks in part to the government's Renewable Heat Incentive. It is predicted to have paid for itself within 12-15 years – although this timeframe will fluctuate as heat sale prices are linked to oil prices.

For now, the estate is buying in woodchip, but there are plans to start producing its own next year. 'We produce a lot of firewood at the moment, so whenever the cost of firewood dips below the cost of chip, we'll start chipping a lot more of our own,' explains Nicholas. 'We're also going to grow about 30 acres of specific coppice to cover our requirement.'

Carbon-neutral heating is an important factor in future-proofing the estate, particularly with new minimum energy efficiency standards being introduced in 2018. 'This is a big issue that estates have to sit up and grasp,' believes Richard. 'The problem with period property is that you can't start installing insulation because there's no space to put it. But there's always something you can do.' At Miserden, this has involved bespoke solutions such as replacing doors and lighting with more energy-efficient alternatives, and there are plans to investigate



the feasibility of a second biomass scheme for the main house and estate office.

It's been a long and challenging journey, Richard says, but one that has ultimately been hugely worthwhile for the estate and its tenants. 'There aren't many schemes on this scale,' he says. 'A big part of it has been the Wills family's vision, and I think the vast majority of the tenants feel quite proud to be part of an estate that has actually been as forward-thinking as it has.'

'It's grown arms and legs really,' adds Nicholas. 'We never set out to change it this much – and I don't think we've changed the character of the village – but it's represented a monumental leap forward with the biomass, broadband and the 4G mast. The housing was always of a really good, lettable standard, but this has been the icing on the cake.'

WATCH A VIDEO ABOUT THE MISERDEN PROJECT
AND THE PEOPLE WHO MADE IT HAPPEN AT
STRUTTANDPARKER.COM

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miserdenestate.co.uk

MAKING ALLOWANCES ON INHERITANCE TAX

“

IT'S TIME TO THINK ABOUT HOW YOU LEAVE YOUR ESTATE TO YOUR DESCENDANTS

”



JONATHAN SMITH,
HEAD OF TAX

From 5 April 2017, the new Inheritance Tax Residential Nil Rate Band (RNRB), announced in the 2015 Summer Budget, will be phased in.

The current tax-free inheritance allowance of £325,000 will be increased gradually over the years, by £100,000 for deaths after 5 April 2017, and then by a further £25,000 each April until 2020/21.

The extra allowance is only available if the deceased's interest in a residential property – which has been his or her main residence – is included in the estate and is left to one or more direct descendants (a child, including

stepchild, adopted child or foster child, or grandchild) on death.

Therefore, this would exclude a property that has always been a buy-to-let investment, but could include a property that has been a residence of the deceased in the past but was let at the date of death. It could also conceivably apply to a property acquired and occupied as a residence shortly before death, with the deceased having always previously lived in rented accommodation.

The RNRB allowance will be the value of the interest in the property (after any liabilities such as a mortgage have been deducted), up to the maximum amount of the band. This means that after 5 April 2020, the total tax-free inheritance allowance could be up to £500,000. If the estate is left to a surviving spouse or civil partner, this increases to a joint allowance of £1 million upon their death.

The much-publicised £1 million exemption will not be available until a second death after 5 April 2020 – and only then on estates worth £2 million or less. However, if the value of the estate (after deducting liabilities but before reliefs and exemptions, such as Agricultural Property or Business Property) exceeds this, the RNRB is progressively withdrawn, by £1 for every £2 over the £2 million limit. This effectively means that for a first death after 5 April 2020, there will be no RNRB available if the net value of the estate exceeds £2.35 million. This figure rises to £2.7 million on the death of a surviving spouse or civil partner when a full transferable RNRB is available.

The perception early on was that the new legislation would encourage people to hang on to their properties and not downsize, which could have a negative impact on the housing market. This has been addressed by an amendment

in the Finance Bill 2016 so that, if part of the RNRB might be lost because the deceased had downsized or ceased to own a residence on or after 8 July 2015, that part will still be available as long as the smaller residence, or assets of equivalent value, are left to direct descendants.

For clients who own two or more residences that might all qualify for the RNRB, thought should be given to when those properties are left to children or grandchildren. If it is likely that one spouse will die before 5 April 2017 but the other will survive past that date, the first to die could leave a share of the residential property to children or grandchildren on their death (within the standard nil-rate band) because their survivor will obtain a full transferable RNRB. For those whose estates are significantly more than £2 million, so there is a good chance that the RNRB will be reduced, they could consider making lifetime gifts to reduce the value of their estate below £2 million. ■

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**PLAYING
POLITICS**



What effect have recent political events had on the appetite for estate ownership in Scotland? **Robert McCulloch**, Estate & Farm Agency Partner in the Edinburgh office, reports

ILLUSTRATION **CHRIS GASH**

The political upheaval that has ensued in the immediate aftermath of the vote to leave the EU – one of the most seismic British political events in living memory – has seemingly cast a veil of uncertainty over trading markets of all types.

But for us as agents both facilitating the sale and purchase of estates in Scotland and overseeing the day-to-day management of them on behalf of their owners, Brexit seems like yet another

episode in a series of political bombshells that have thrown the orthodoxies of the world in which we operate into turmoil.

For Scots, the EU referendum felt like another waymarker on a journey that began in 2011, when the Scottish National Party won an overall majority to govern Scotland. This paved the way for 2014's independence referendum, in which victory belonged to the 'No' camp. But now, with the Brexit vote contrary to the prevailing desire north of the border, a second independence referendum is a genuine prospect.

Putting aside the impacts of successive elections and referendums, the Scottish government has been drafting legislation designed to create a fairer society – with a particular focus on land ownership and management as set out in the Land Reform (Scotland) Act 2016. This will have considerable implications for Scottish landowners, from the reintroduction of business rates on sporting estates to the appointment of a Scottish Land Commission and a new Community Right to Buy for sustainable development.

For farmers and landowners, Brexit raises further questions. Uncertainty over subsidies – fundamental to many rural businesses – vies with the possibility of reduced red tape and less interference from Europe. Others will be concerned about the reduced political clout of UK farmers compared with their European counterparts.

These continuing doubts are perhaps as damaging as the actual legislative changes – if not more so. As representatives for both current and prospective landowners, we have a responsibility to contribute to the public consultation that may shape any ensuing legislation, keep track of the detail, and provide our clients with practical recommendations and strategic advice to enable them to make informed decisions. But whether we're talking about land reform, Brexit or Scottish independence, the importance of politicians getting it right cannot be overstated.

In the world of estate sales, the effects of these unfolding events have been fascinating to observe. With the exception of 2009, when the impact of the credit crunch reduced the volume of sales to single figures, there were an average of 20 estate sales a year in Scotland between

2003 and 2012. During that period, about 25% of buyers were based in Scotland, 25% were from overseas and 50% were English.

In 2014 – the year of the independence referendum – sales dropped to just seven from 16 the previous year, reflecting caution among both buyers and sellers in the face of an uncertain political future.

The following year saw a return to 'normal' trading conditions, with 19 estates changing hands amid fairly buoyant market conditions. This was despite the continuing evolution of land reform legislation, as well as market factors such as the introduction of the Land and Buildings Transaction Tax and proposed changes to Scottish succession laws.

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IT SEEMS BUYERS ARE PREPARED TO ACCEPT EVOLVING LEGISLATION AS PART AND PARCEL OF LAND OWNERSHIP

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Between the start of this year and the outcome of the vote on 24 June, 10 Scottish estates had either been sold or placed under offer, indicating a typical appetite for ownership in line with previous years. This suggests that buyers are prepared to accept evolving legislation as part and parcel of land ownership and proceed with estate-buying aspirations.

However, the uncertainty over Brexit, together with the realistic possibility of a second independence referendum, is creating some hesitation in the market. The question now is, what impact will Brexit have on demand for Scottish land? At the time of going to print, it is virtually impossible to predict. But with Strutt & Parker launching Fasque Estate in Kincardineshire and Tillypronie Estate in Aberdeenshire – two of the most significant estate sales in Scotland in recent years – the market is sure to quickly determine the answer. ■

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With the value of woodland on the rise, now is the perfect time for landowners to tap into an underused resource

WORDS **BEN PIKE**

ILLUSTRATION **JACOB EISINGER**

Trees cover some 3.15 million hectares – around 13% – of land in the UK, providing a vital natural resource. But they are key not only to the country's environment, but also its economy – and Strutt & Parker predicts a positive future for those with an interest in the sector.

Commercial forest owners have seen the value of their assets rise exponentially in the past 10 years. 'Forestry has made a total return of 18.4% per year in the past decade,' says Jason Beedell, Partner in Strutt & Parker's Research department. 'To put that into context, UK rural property made a return of 11.3%, residential market lets produced 9.2%, and commercial property was 5.7%. Most of that has been driven by capital growth.'

Only a relatively small number of forests change hands each year, with an average of around 15,000ha sold per annum. With woodland being a relatively stable, simple-to-manage asset and a finite resource, values have increased in a similar style to that seen in the farmland sector.

Despite prices plateauing in 2015, the outlook is positive – and it's not just large-scale forest owners who should be encouraged. Ralph Crathorne, Partner in Strutt & Parker's Land Management department, believes that the financial case for tackling much of the UK's

undermanaged woodland now stacks up. 'There are a number of reasons why forestry has strategic importance within the estate,' he says. 'It helps deliver capital tax benefits, and is also important in a world that's more focused on biodiversity and green-energy technology.'

While he admits that the UK's impending withdrawal from the EU casts uncertainty over some areas of forestry, he believes that a weaker pound could mean a greater reliance on home-grown timber. 'If the pound is to remain weaker while the UK's exit from the EU is negotiated, it could also make UK forestry look cheap in world markets and attract overseas interest from investment buyers,' he explains.

A growing concern

The accelerating interest in forestry has led to Strutt & Parker strengthening its own hand. In April, it announced the acquisition of the UK's leading forestry firm, John Clegg & Co – a team of chartered surveyors, chartered foresters, economists and support staff specialising in the acquisition, sale, management and valuation of forestry and woodland.

John Clegg & Co's clients include institutional and private funds, traditional rural estates, government agencies, companies and private individuals. In the past 10 years, it has transacted more than 178,000ha of land, and will continue to operate as an independent business within the Strutt & Parker group.

Fenning Welstead, Partner at John Clegg & Co, explains that the rapid growth in the sector is the result of a number of factors. 'Over the past decade, we've seen forestry values go from £2,000 to £8,000 per hectare,' he says. 'From 2002 to 2008, there was a realisation that woodlands were undervalued, and then in 2008 the financial crash led to investors rushing to real assets at the same time as a weaker pound made UK timber more valuable.'

This growth in value has been tracked by settled returns from commercial forestry, but the market for trees is not only in wood products, according to Welstead. 'About 45% of a tree is cellulose, and we're seeing many uses for it as a

fibre in products and even body parts,' he says. 'Trees are a material for the future – processing is not just about timber or chipboard now.'

Seeing trees as an important part of the country's ecology as well as its economy, governments have all set targets or introduced incentives to encourage planting. In Scotland, an ambitious target of 10,000ha of new plantings a year has been set, with £250 million of grants available for those who can do it. Wales and England have more modest annual targets of 4,000ha and 5,000ha respectively.

As with most financial incentives, bureaucracy can get in the way of progress. 'In some areas, availability of land will be a barrier to planting more trees – but perhaps the bigger issue is the approval process for planting,' says Welstead. 'The Glastir [sustainable land management] scheme in Wales is burdensome and makes it very difficult to apply for new plantings.

'Countryside Stewardship grants for planting trees in England are financially attractive but also convoluted in their application procedures. Scottish Rural Development Programme grants are

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TREES ARE A MATERIAL FOR THE FUTURE, NOT JUST TIMBER OR CHIPBOARD

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similarly strong, and the Scottish Parliament has a Forestry Strategy to encourage more tree planting.'

Money does grow on trees

Reduced returns from farming and improved woodland values make the case for planting trees on marginal farmland more appealing, particularly as Basic Payments may be unaffected. Mike Tustin, a chartered forester with John Clegg & Co, →



believes that now is a good time for landowners – both with and without trees – to take more of an interest in what woodland can offer. A perfect storm of planting grants, favourable tax treatments and a resurgence in the price of firewood means woodlands that were not worth maintaining 10 years ago are now financially attractive.

‘We estimate that over a million hectares of trees are undermanaged – that’s an awful lot of woodland that no-one is doing anything with,’ he says. The majority can be found in England, predominantly in the southeast where large estates have simply not been encouraged to focus on trees.

Rewind a decade and you’ll find the root of the problem: the low price of firewood and a lack of financial incentives for putting money into forestry. But times have changed. ‘Standing prices of hardwood for firewood range from £30 to £40 per tonne – double what it was 10 years ago,’ says Tustin. ‘Conifer prices for sawing are £20 to £35 per tonne.’

Although its price is weather-dependent, firewood is now competing year-round with woodchip for biomass boilers after subsidies became available under the Renewable Heat Incentive. Whatever the end market, demand for

what would otherwise be deemed ‘waste timber’ is on the rise.

Current tax rules are important too. ‘Firstly, all income from timber is tax-free,’ says Tustin. ‘A second benefit is that if you run your woodland commercially and you want to sell it, you only pay Capital Gains Tax on the value of the land and not on the value of the trees. Commercially managed woodlands qualify for Inheritance Tax relief too.’

Some estate owners view active forestry as a daunting prospect, but Tustin believes that the process of bringing woodland into management is worthwhile. ‘Woodland owners need to set objectives first,’ he says. ‘For some it will be commercial – either selling the wood or improving its sporting potential – while for others it’s for conservation purposes.’

‘The first thing to do is to inspect them and see what potential they have. Engaging professional advice will help to realise what can be achieved and at what cost. Not every woodland is worth managing, but if it is, this is a wonderful opportunity.’ ■

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THE LEAF VOTE: HOW BREXIT COULD AFFECT FORESTRY

Funding under the Common Agricultural Policy

At present, there are a number of grant schemes available for planting trees in England, Scotland and Wales. Before the referendum, Leave campaigners made assurances that the agricultural and environmental subsidies that fund them would be replicated, and the government has said that current support will remain in place until the UK exits Europe.

The decreasing value of the pound

At the time of going to print, the value of sterling against the US dollar was still well down on its pre-referendum levels. A weaker pound makes imported timber more expensive and, if the situation is sustained, could lead to a higher demand for UK timber.

THE BLACKGRASS PLAGUE

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A FARM WHERE
BLACKGRASS IS
SEEN TO BE UNDER
CONTROL WILL BE
MORE ATTRACTIVE

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MARK MCANDREW,
PARTNER, ESTATE & FARM AGENCY

A pernicious weed found on a growing number of farms, blackgrass is increasingly difficult to combat. It can drastically reduce crop yields and is often resistant to chemicals, making it one of the biggest challenges faced by growers.

Assessing the exact effect of blackgrass on land prices can be difficult. Extreme infestations can reduce potential values by as much as 10-20%, or £1,000-2,000 per acre – especially on land where remedial action will require significant capital works such as drainage.

When selling any property, it is always vital to understand any problems it

might possess – including their cause and effect on both income and capital value – and formulate a plan that can be conveyed to prospective purchasers to negate their concerns. It therefore makes sense for vendors to consider getting on top of any blackgrass issues before offering land for sale. Doing so is likely to make the holding or parcel of land more saleable, and could even add value.

Where blackgrass is resistant to agrochemicals, vendors will be in a stronger position if they can show they have been able to reduce it. This should include yield maps showing that the battle against blackgrass is being won, and that crop yields are improving as a result. Good records and yield maps prove a farm has been managed both diligently and correctly; in other words, it shows you have a strategy. On the other hand, a farm that is covered in blackgrass suggests you have lost control – and might be selling up because you don't know what else to do.

Blackgrass is becoming more expensive to tackle, and the knock-on effects are focusing attention on farmland values. Recent research by Strutt & Parker agronomist and farm adviser Jock Willmott suggests that blackgrass control now costs £50-150 more per hectare than it did a decade ago. Non-chemical control methods include delayed drilling or spring cropping. Spring-sown crops tend to be less affected by blackgrass than autumn crops. Ploughing can also reduce it by burying seeds below the level from which they are likely to emerge.

Capital works may be justified on heavier, wet soil, which is more prone to blackgrass, especially if drainage is poor and the farm will not be sold for some years. A full-scale drainage scheme might not be worthwhile, but a 'repair and replace' policy could well be.

It's all about finding the balance between time and expenditure – deciding whether you will retain ownership of the farm long enough to see a return on your investment. The more time you have before the farm is sold, the more likely it will be worth making a hefty capital investment. Buyers need answers, and they will be further reassured if you have already done a certain amount of any necessary work, and can show what needs to be done and how much it will cost.

Blackgrass looks at its worst in early to mid-summer. Farms with a known problem should perhaps be marketed in the autumn, when the fields are in stubble or have been recently drilled, or in the spring before the blackgrass has started to appear. This is not about hiding anything, but about showing what you have on offer in its best light. Remember, a farm where blackgrass is seen to be under control will always be more attractive than one where it is not. ■

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BARN STORMING

Obtaining planning permission to convert a farm building to residential use can be a fraught process. Strutt & Parker's **Russell de Beer**, Land Management Partner in Norwich, and **Nicola Bickerstaff**, National Development and Planning Associate in Chelmsford, offer some advice

ILLUSTRATION RELAJAELCOCO



1 PICK YOUR PROPERTY

It sounds obvious, but the building you intend to convert must be structurally sound, suitable for conversion, easily accessible and (ideally) well located. Consider its proximity to local services and what impact it will have on your retained property and surrounding residents.

You should also decide on the most appropriate use for your building – will this be residential, commercial, retail or leisure? This will determine how you approach the local planning authority (LPA) and proceed with your application.



2 MEET AND GREET

Early engagement with both the LPA and local residents is essential. Your planning officer can provide useful guidance about the specifications required for the development. Some LPAs offer a pre-application advice service; although this incurs a fee and is not binding, it can help you avoid future problems at an early stage, saving both time and further costs.

You must also ensure that your application meets local planning requirements. For example, LPAs will have a policy that promotes the preservation of historic buildings. Navigating the relevant planning documents can be a confusing task, so seek professional advice.

Make sure you also engage in early discussions with both the parish council and local residents to identify and discuss any opposition. Almost all planning applications receive letters of objection, so try to limit these by gaining local support for your scheme.



3 A DESIGN FOR LIFE

The more attractive the development, the more likely it is to appeal to the planning officer and the local community. So spending time on a well-considered design is vital.

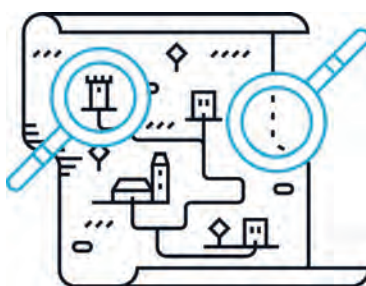
Choose an architect who will work with the existing building and maximise its potential. Identify architects who have been involved in successful schemes elsewhere – this information is included on your LPA's website. Review their previous drawings and applications, arrange to meet them, and obtain alternative quotes to ensure you are getting the best value.



4 YOUR SURVEY SAYS...

You must assess the impact of a development scheme on the local ecology and any protected species, archaeological remains, nearby trees and historic buildings, as well as surveying for contaminated land or the presence of asbestos. Ensure that the site is well presented ahead of these surveys by removing any chemical and fuel containers and cleaning up spills.

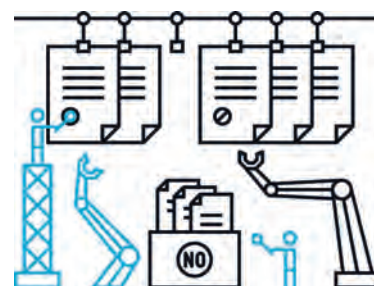
It is important to work with the contractors to ensure surveys are carried out in a timely fashion, as old survey data submitted with an application may not be valid. Ecological surveys for certain species must be conducted at specific times of the year – for example, April and May for the natterjack toad.



5 MONEY MATTERS

Obtaining planning permission is a costly process, so be aware of the likely investment at the outset. For example, surveys can cost several thousand pounds – and if your site contains any archaeological remains or is contaminated, this outlay can increase considerably.

It is advisable to seek a professional opinion on the likely value of the site, the predicted development costs, and an indication of the completed property's ultimate value. Would it be attractive to a potential purchaser who might expect a 20% profit margin?



6 KNOW YOUR RIGHTS

Permitted development rights offer exciting opportunities to develop your buildings without a full planning application, but there are restrictions. Conversions mustn't cover more than 450 sq m or create more than three dwellings on a holding, and the proposal shouldn't extend outside the footprint of the external dimensions of the existing building.

Don't assume that the rights apply to all barns. A building must have been used solely for agricultural purposes, in connection with a trade or business, as of 20 March 2013 or when it was last in use. And if it is listed, you will need planning permission.

Finally, don't start any works before you submit a prior notification application to your LPA. The LPA then has 56 days to approve your proposal, after which period work can begin. If it is refused, you will still have the right to appeal. ■

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NOW
IS THE TIME FOR A
BREXIT

Farmers and landowners will be affected more than most by the UK's historic vote to leave the EU. Strutt & Parker experts debate what lies ahead for rural Britain

WORDS ISABEL DAVIES ILLUSTRATION OLI FRAPE

There is little doubt that the UK's EU referendum result will have seismic implications for agriculture, ending more than 40 years of British farmers operating within the Common Agricultural Policy (CAP) framework. It prompts big questions about what a post-Brexit farming policy and international trading arrangements might look like, both of which will impact on commodity prices and farm profitability. Strutt & Parker's James Farrell, Head of Estate & Land Management, Michael Fiddes, Head of Estate & Farm Agency, and Will Gemmill, Head of Farming, discuss how rural businesses can prepare for this uncertain future.

How significant is the decision to leave the EU for British farmers and landowners?

JF It's hugely significant. There are currently big unknowns about trade arrangements, what will replace the CAP, and what these

STRATEGY

ARE YOU READY TO GO?

changes will mean for the countryside, which is home to a fifth of us, and the rural economy, which generates about £230 billion. However, while there will be challenges, I'm absolutely sure there will also be opportunities.

WG This could fundamentally change the way people farm. Whenever we've had a reform of the CAP, it has resulted in change – and this is like another reform, only this time we'll be creating our own domestic agricultural policy. So significant change lies ahead, and we'll need the best brains in the country writing our new farm policy to ensure we head in the right direction.

What changes could the rural sector see over the next few months?

WG Black days for the market are usually golden days for farmers, so we could see some positives in the short term. When our currency weakens, UK exports do become more attractive. That means we could see an increase in commodity prices and an uplift in farm profitability.

The level of agricultural support offered by the UK government is a crucial question. What are your expectations?

JF The government has guaranteed that agricultural funding under

Pillar 1 of the CAP (direct payments) will continue at current levels until 2020. This is positive news and gives us greater certainty in the short term. After 2020, we don't yet know – but the debate has started, with the Campaign to Protect Rural England and others pitching in with some radical proposals. With increasing demands from the NHS and elsewhere, significant change seems likely. What we mustn't lose sight of is the importance of the food and farming sector. Food security is critical, so the debate must address how we feed the nation. There are also important environmental and social questions to answer if countryside communities are to thrive in a vibrant rural economy.

MF I can't believe the government won't offer some sort of support payments once we get beyond 2020. But there will be the question of affordability – both because of competing demands for the money and because, if the wider economy is in a worse place, then there'll be less money to go around. →

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LEAVING THE EU
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WG The government's pledge on funding for direct payments means that the Basic Payment Scheme can continue for now. The critical question we need to tackle as an industry is what should be the priorities moving forward. I would like to see an agricultural policy developed that rewards productivity and the efficient management of a business. The government could also take the opportunity to link farming and forestry policy.

What is the most realistic scenario for new trading arrangements with the EU?

MF It's impossible to call and there's a lot of posturing at the moment. Trade negotiations involve two sides, so we will have to reach a compromise that both are comfortable with. But there is the danger that Europe will want to make an example of the UK when it comes to trade terms.

WG Before the vote, the NFU commissioned a report from Wageningen University to look at possible scenarios. The positive message was that if support continues at current levels, profitability for most sectors could be maintained or even improved. However, the removal of support and significant trade liberalisation would have a negative effect, particularly on the beef, sheep and sugar sectors. I suspect any deal will be quite bespoke. However, I do anticipate some trade barriers, as I don't think the UK will be prepared to follow the Norwegian model, which offers free movement of people in exchange for free access to EU markets.

How much difference will Brexit make to reducing regulation?

JF We already have a tendency to gild the lily when it comes to regulation, so I can't see the government wanting to unpick what we've already got in place. If we want to trade with other countries, there will be minimum standards they expect us to adhere to.

WG We may see simplification of the application process for support payments, which many farmers feel is overly complicated. We might also get rid of the three-crop rule. But I don't think we will see a huge cut in red tape.

What implications are there for the farmland market and farm rents?

MF As things stand, we're still seeing people bidding on land and the weaker currency is making farmland look more attractive to overseas buyers. However, the decision to leave the EU has created uncertainty, which will make some farmers reluctant to invest. So in the short term, it's possible that we could see a decline in the number of transactions, and average prices in some areas may come under pressure. Taking a longer view, land remains a diminishing and essential asset, so we remain confident about an increase in values over the longer term.

JF If the pound remains weak and farm profitability increases, then the rental market would be largely unchanged. However, with a different subsidy regime in place post-2020, a shake-up of the rental sector would be inevitable. This could herald the end of smaller, unproductive let farms and lead to a complete restructuring of some rural estates. This would be a great opportunity for some, but a real challenge for others.

What can farmers and rural estates do now in order to prepare for the Brexit era?

JF More than ever, estates need to look at what is going on within their own business and the wider rural economy. The post-Brexit strategy must address an overexposure to agriculture and identify ways to drive a diversified estate economy. There needs to be some serious thinking done that puts estates in a place of strength for the reality of a new farm policy. This is a really exciting time of change and opportunity.

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ESTATES MUST
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WITH THE RIGHT
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WG Farm businesses must be in the best possible shape for what lies ahead and diversify their farming income to spread their risk. The key is prudent and sensible management, making sure farms are budgeting to make a profit, even at lower commodity prices. This could involve re-examining labour requirements and keeping a tight rein on capital expenditure.

What opportunities could Brexit present?

WG We have the opportunity to rewrite agricultural policy so it is in line with UK conditions, rather than a compromise with 27 other countries. British farmers would welcome a concise farming, food and environmental policy that makes it clearer what is expected of them.

JF This is a fantastic time to review estate strategy. With long-term borrowing costs at an all-time low, the opportunity to re-gear and invest for a bright future has never been better.

MF If there are fewer buyers in the land market, it will offer an opportunity for people who are confident about their business and want to expand.

How different could the farming industry look in 10 years' time?

MF I think it will accelerate the change that we have already identified. Much depends on the future level of support, but we could see a move towards bigger, more efficient farms.

WG If we get our agricultural policy right, with a focus on productivity, then we could be in for a bright future. We've got the right ingredients – good land and climate and some very capable farmers. And with continued research and development investment, we could be right up there leading the way. We will need to look forward, not back. ■

READ STRUTT & PARKER'S REPORT ON THE IMPLICATIONS
OF BREXIT ON THE PROPERTY MARKET AT
STRUTTANDPARKER.COM/KNOWLEDGE-AND-RESEARCH

STRUTT & PARKER'S EXPERT PANEL



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HOW THE LAND LIES

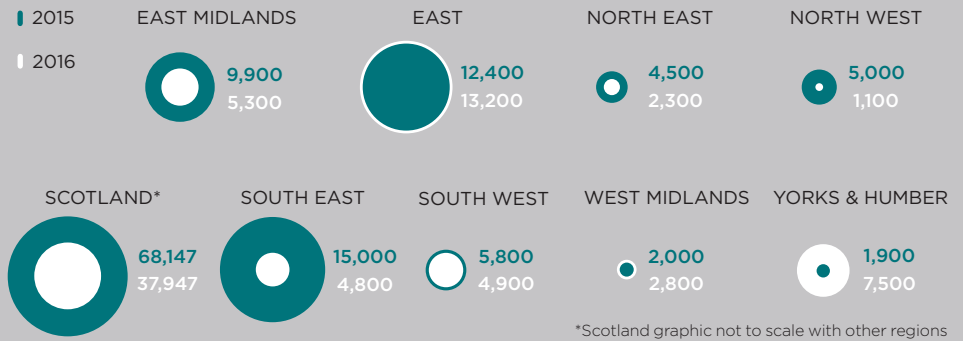
KEY STATISTICS AND RESEARCH FROM STRUTT & PARKER

Farmland

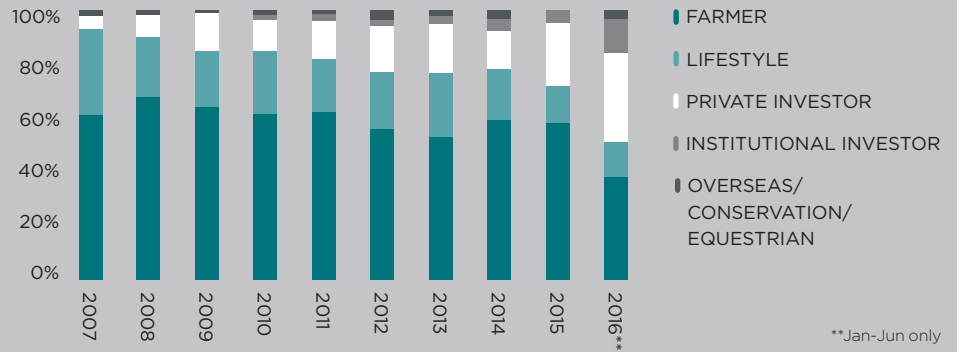
Since the EU referendum, we have not noticed the negative effect on the market that was predicted by some. Not one farm or land deal has fallen through due to the Brexit vote; indeed, demand from investors and lifestyle buyers is strengthening while farmer demand weakens. However, the amount of farmland sold in the first six months of 2016 was less than half that of the corresponding period in 2015. Arable prices fell 1% in the second quarter of 2016 compared with the first, and are 9% lower than a year ago. Pasture prices rose 2% in the second quarter, but are 5% lower than a year ago. In the short term, the market will become more polarised with a greater range in sale prices, and the value of a farm will be mainly determined by location.

Michael Fiddes, Head of Estate & Farm Agency

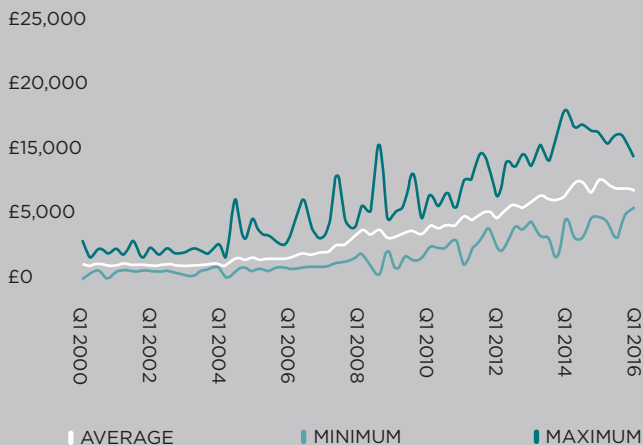
Land on the market in acres, Jan-Jun



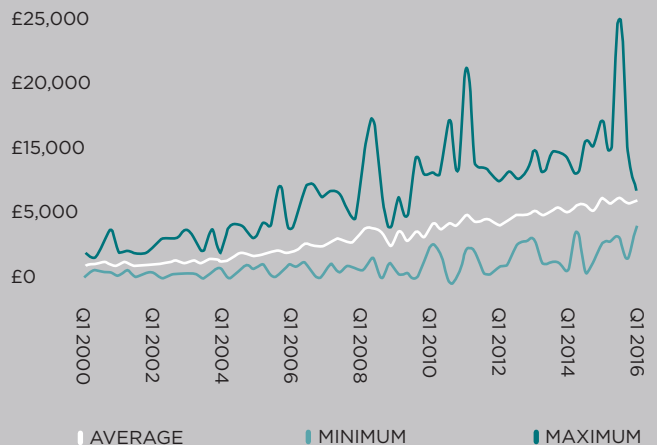
Buyer types (England only)



Arable land agreed sale prices (£/acre)



Pasture land agreed sale prices (£/acre)



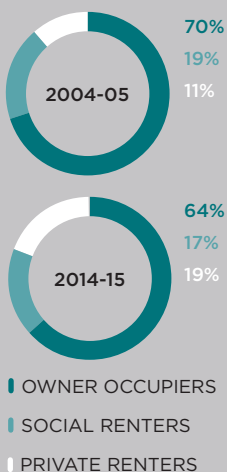
Source for all farmland data: Strutt & Parker Farmland Database

Residential property

Following the UK vote to leave the European Union, the country is expected to remain in a prolonged period of uncertainty until new agreements are ratified. As a consequence, financial markets are likely to be volatile, and the pound is expected to fluctuate and may depreciate further. These concerns have the potential to further increase investor and consumer hesitation, and adversely impact the domestic economy, upon which the national housing market is heavily reliant. However, demand for housing continues to outstrip supply, and with employment at record highs, we expect activity and price growth in the housing market to remain reasonable across the UK.

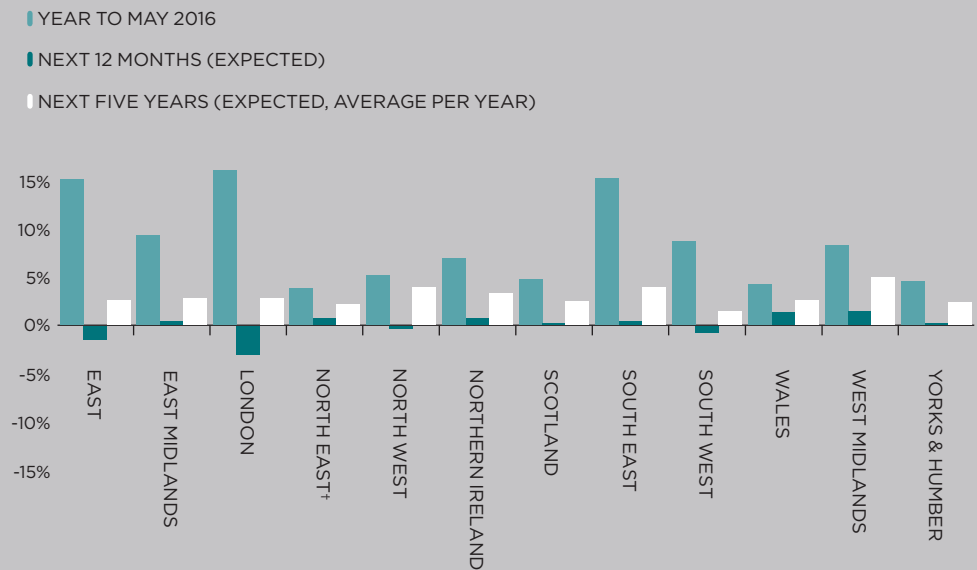
Vanessa Hale, Research

Home ownership in England



Source: DCLG English Housing Survey 2014/15

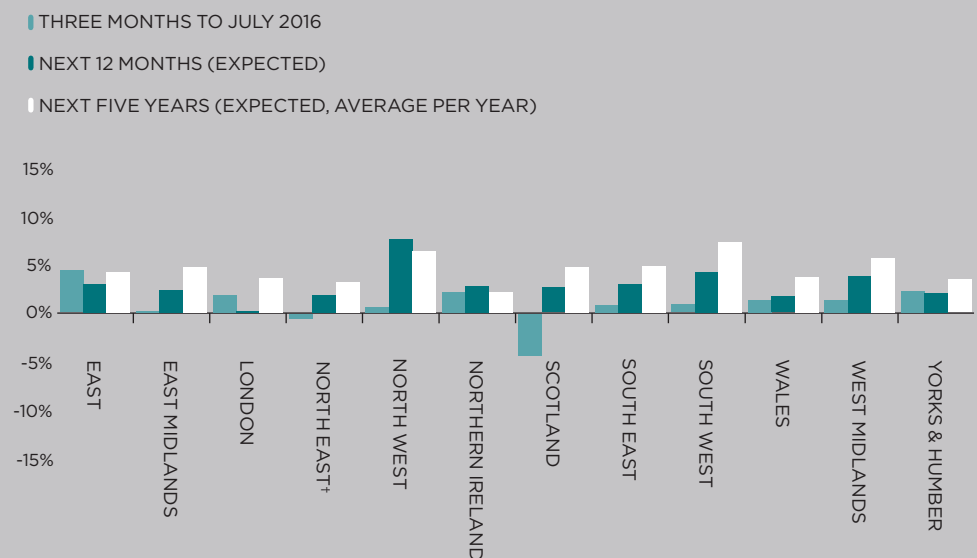
Annual change in average house prices



Sources: Land Registry House Price Index (May 2016), RICS (June 2016; not seasonally adjusted)

*RICS forecast data for North East includes Cumbria

Changes in average monthly rents



Source: HomeLet Rental Index (July 2016), RICS (June 2016; not seasonally adjusted)

*RICS forecast data for North East includes Cumbria

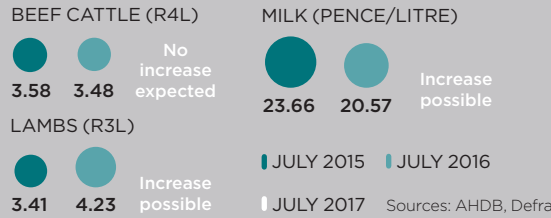
How the land lies

Farming

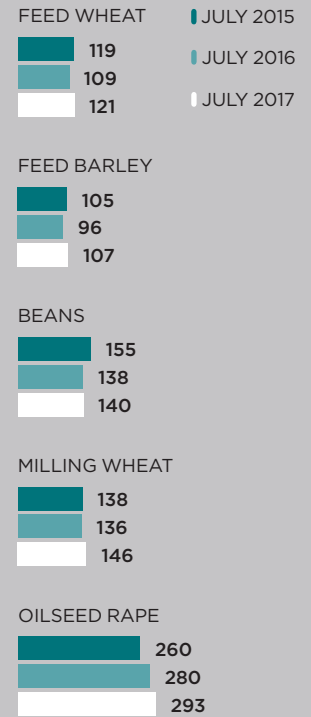
The debate has already started on the UK's post-Brexit agricultural policy, which will create challenges and opportunities from 2020 onwards, when we expect to leave the EU's Common Agricultural Policy. Farm profits remain under pressure in all sectors due to lower commodity prices, which we do not expect to rise significantly in the short term. Commodity prices were also highlighted as a factor in our *English Contract Farming Agreement Survey* (see page 6), which showed that incomes for farmers and contractors fell by nearly a quarter in 2015, despite crop production costs being cut. However, these agreements remain a good option for many farmers.

Will Gemmill,
Head of Farming

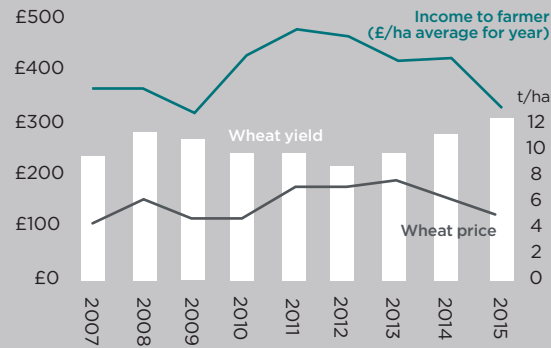
Livestock (£/kg dead weight)



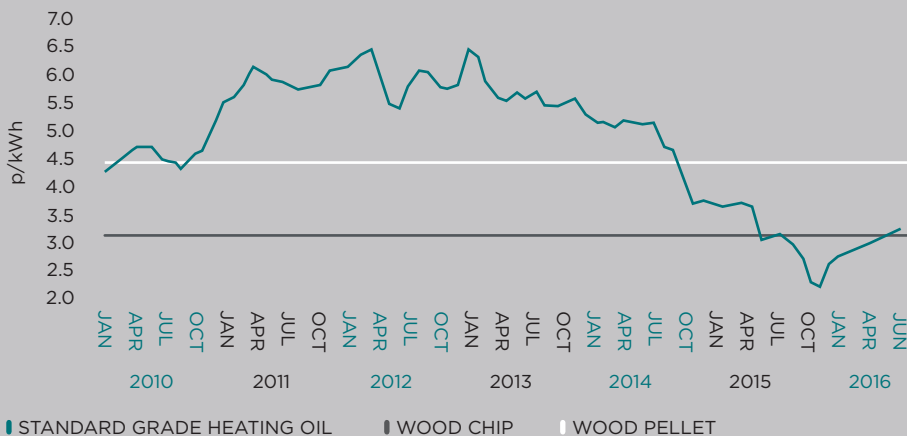
Arable crops (£/tonne)



Contract farming



Cost of heating oil and biomass fuels



Energy

The price of oil has declined to the point that - on a pence per kilowatt hour basis - heating oil is now cheaper than wood fuel before any payments through the Renewable Heat Incentive. However, with oil prices expected to rise and increasing pressure to reduce carbon emissions, rural properties using heating oil should look at alternatives.

Alexander Creed,
Head of Energy

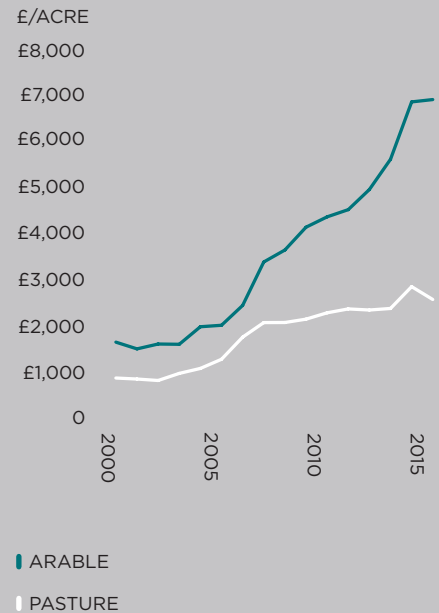
AROUND THE REGIONS

MARKET INSIGHT AND UPDATES FROM OUR LOCAL AGENTS

Scotland



Average land prices in Scotland



Scottish land supply remained tight in the first half of 2016 as sellers held off entering the market due to delayed subsidy payments, reduced commodity prices and the EU referendum.

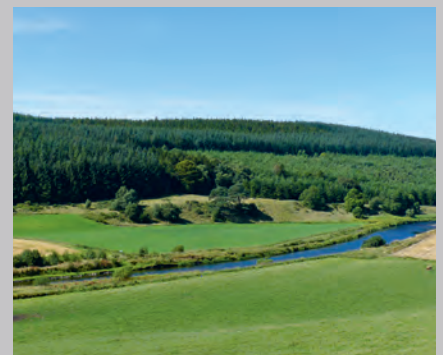
The number of commercial farms for sale in the first two quarters was around 40 – similar to last year. The timing of the launch of most of these farms coincided with the Royal Highland Show, meaning that very few had already changed hands by the end of June this year.

The gap between average arable and pasture prices in Scotland has never been so wide. A feature of the market in the past year has been the lack of availability

of Class 2 land, which also has the strongest demand. This is maintaining a steady average for the price of an arable acre, even though buyers for secondary arable are now more selective, and we are seeing much greater regional variations in land values. The average price of pasture in Scotland has fallen by about 9% in the last year, caused by lower profitability of livestock farms.

It appears that the number of acres coming to the market in the second half of the year will continue to be low, which should result in average land values remaining steady.

SALES HIGHLIGHT



Todlaw Forest, Turriff, Aberdeenshire

This 270-acre mixed age-class commercial forest achieved a price that reflects the value being attributed to high-quality coniferous plantations in Scotland.

Offers over £985,000. Sold by John Clegg & Co for £1,260,000, August 2016



James Butler, Edinburgh

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Around the regions

North

Smaller residential farms have been the flavour in the northern half of the UK so far this year, with farming and non-farming buyers fighting hard to secure the best properties.

Buyers are still seeking good-sized farms that help to provide economies of scale, often with alternative income, diversification or development angles. However, those existing landowners or investors looking to buy additional blocks of land are focusing on quality and location more than ever.

The region, like the rest of the UK, continues to experience pressure on farming returns, which has dampened confidence and is reflecting a reduced interest from farmer buyers. However, good-quality blocks of land in prime

areas are still high on the list. Investors are taking a long-term view, hoping that higher income levels will return in time, while benefiting from tax advantages.

Rollover buyers are still active, though not as prevalent as before. Perhaps the large cheques that were being written out to landowners before the 2008 slowdown have been replaced by deals releasing tranches of land over longer timescales.

What the northern market really needs is a clutch of well-equipped commercial units to test the pure agricultural market. At the other end of the scale, I believe a quality upland sporting estate would attract considerable interest, especially from overseas buyers who may perceive the UK to be less expensive than it was before the EU referendum.



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Number of farms marketed in the North by type and size, Jan-Jun 2016



Braida Garth, Ingleton.
A 1,268-acre hill farm situated in the Yorkshire Dales National Park.
Guide price: £2,200,000

SALES HIGHLIGHT



Wood End Farm, Leyburn, North Yorkshire
A Grade II Listed period house, farm buildings and 302 acres overlooking Wensleydale Valley and Lake Semerwater.
Guide price: £1,500,000.
Sold April 2016

East Midlands



Farset Farms, Yaxley, Cambridgeshire. A Grade 1 farm extending to about 1,265 acres. Guide price: £12,500,000

Number of farms marketed in the East Midlands by type and size, Jan-Jun 2016



Approximately 50% less land has been launched onto the open market in the first six months of this year, compared with the same period in 2015.

The result of farming profitability coming under pressure in an area that is traditionally dominated by farming buyers means that the majority of this land is still available. The key driver behind this is location rather than quality of land.

In June, we launched 266 acres for sale in two blocks in east Leicestershire. This is an attractive and popular area of the county and the sale attracted a good amount of interest – and we have recently agreed terms.

We have also launched 1,265 acres of land close to Peterborough, which has attracted both local and national interest. This farm is very diverse and is capable of growing field vegetables, root crops and cereals, which provide much-needed diversity to a farming business.

Looking forward, we believe that, with uncertainties in the economy and decreasing interest rates, land may be seen as a sound investment. With little indication of much land coming onto the open market, it is likely that prices will stabilise over the next six months, with some exceptions for the best farms.

SALES HIGHLIGHT



Belcher's Lodge Farm, Horninghold, Leicestershire

A 186-acre block of arable land, pasture and woodland near the pretty village of Horninghold.

Guide price: £1,600,000.

Under offer, August 2016



Sam Holt, Stamford

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Around the regions

West Midlands

The farmland market in the West Midlands is diverse, with varied types of buyers and property being sold. As a result, the market continues in a 'business as usual' fashion, despite the surprise result of the EU referendum and a tough economic climate for most farming sectors.

As with the national market, the region has seen a wide range of prices achieved. Commercial, progressive farmers continue to compete and pay above-guide prices for the best-quality land or for farms in sought-after locations.

On the other hand, there have been other sales that have struggled, often due to location, which can result in the land being sold away from the house or

buildings. Lifestyle buyers attracted by the residential elements of a farm or estate and rollover buyers also remain active in the region.

The West Midlands market experienced a pre-Brexit drought in the supply of land, which we attribute to uncertainty and caution around the upcoming vote. Now that the referendum has been and gone, the few farms that have come onto the market have generated high levels of interest, which is encouraging as we move into the autumn.

There is still reason to be vigilant, but early indications tell us that the farming sector will remain as resilient as ever and push through this uncertain period, for better or for worse.

Top, average and bottom prices for land in the West Midlands, Apr-Jun 2016

ARABLE (£/ACRE)



PASTURE (£/ACRE)



- TOP 25%
- AVERAGE
- BOTTOM 25%



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Knobbs Farm, Warwickshire. A 342-acre arable farm close to Stratford-upon-Avon. Sold in excess of the £4,100,000 guide price

SALES HIGHLIGHT



Claydons Farm, Warwickshire

A 189-acre arable and grassland farm with considerable development potential near Stratford-upon-Avon.

Sold in excess of the guide price of £2,250,000, July 2016

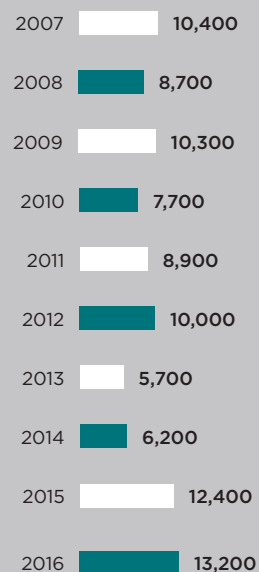
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East Anglia



St Clare Hall Farm, Bury St Edmunds. A residential farm with equestrian facilities. Sold in excess of the guide price of £2,425,000

Acres of farmland coming to market in East Anglia, Jan-Jun



East Anglia's farmland market operated in stark contrast to the rest of England, with the supply of land coming to market during the first six months of the year increasing compared with previous years.

While vendors have shown confidence in the market, it seems that buyers and investors are less sure of the Eastern region, with just 30% of these farms and farmland being sold or under offer.

Prices, however, remain quite firm. Sales of arable land are now in a broad band around £9,000/acre, although some sales can achieve more. This was illustrated by two sales, near Lavenham

in Suffolk and in central Essex, where prices in excess of £10,000/acre were achieved. In both cases, knowing the market and setting an appropriate guide price resulted in competitive interest, driving the sale price up.

It seems that the range of prices is likely to grow during the second half of the year unless confidence is bolstered by soft commodity prices, a high-yielding harvest or lower currency rates that benefit agricultural productivity. As the effects of the EU referendum unfold, it is more than likely that there will be plenty of opportunities for farmers to expand across the region.

SALES HIGHLIGHT



Bloomfields, Newmarket

A superb residential equestrian property in a beautiful secluded setting, with a modern training or stud complex and a six-bedroom period farmhouse in about 113 acres.

Guide price: £4,500,000



Giles Allen, Ipswich

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South East

The amount of land for sale in the first half of 2016 was just a third of that in the same period in 2015, taking supply almost back to 2014 levels. Unsurprisingly, the knock-on effect was that with fewer acres available, fewer acres have been transacted.

There are no obvious reasons for this shortfall, other than the political uncertainty caused by the EU referendum. Despite this, land prices have held firm: average arable prices remain above £10,000/acre and pasture above £8,000/acre. A growing focus for buyers is now on quality of land, access, infrastructure and potential development opportunities in the long term.

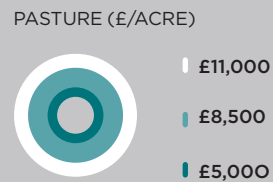
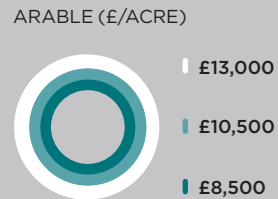
It is my opinion that the second half of the year will make up for this

lack of supply, with a number of new farms of various sizes coming onto the market, including blocks of bare land. One such property is Court Lodge Farm in west Kent, a commercial arable unit of 695 acres that is already generating a good level of interest.

The estate market, always prevalent in the region, is showing renewed levels of activity in terms of availability (although the majority are being offered privately) and sales concluded – such as the Lydhurst Estate in West Sussex, which sold in August after nearly a year on the market.

Finally, and on the back of the highly successful sale of Shere Woodlands in Surrey, we are seeing unprecedented levels of interest from people looking to invest in woodland of all types.

Top, average and bottom prices for land in the South East, April-June 2016



- TOP 25%
- AVERAGE
- BOTTOM 25%



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Court Lodge Farm, Kent.
 A 695-acre commercial arable farm within 25 miles of central London.
 Guide price £6,300,000

SALES HIGHLIGHT



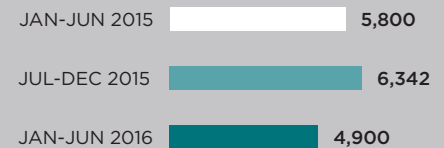
Shere Woodlands, Surrey
 A 732-acre commercial conifer and broadleaf woodland in the Surrey Hills Area of Outstanding Natural Beauty, with the opportunity for shooting and stalking.
Sold in excess of the guide price in July 2016

South West



Ridge and Westcombe Farms, Dorset. Two dairy farms totalling 523 acres set amid the Dorset Downs. Guide price: £6,000,000

Acres of farmland marketed in the South West



The South West has continued to see activity following the EU referendum – although, like most regions, it suffered from a late market due to both the political uncertainty and the dreadful weather. This delayed many sales’ traditional launch date of May by at least one month.

Only 4,900 acres were launched onto the open market in the first half of the year – down 18% from the same period in 2015. Average prices remained static at £10,500/acre for arable and £8,000/acre for pasture. There are a lot of farms available privately in the region, with

sellers looking to test the market without fully committing to it until the real effect of the referendum becomes clear. We have five farms available quietly, with the owner prepared to retire if they can achieve a sensible price.

My sense is that location will be the single biggest influence on land prices. If you happen to have a good local buyer, prices are likely to remain strong. However, if you are in the unfortunate position of selling a farm in an area with limited or purely farming-led demand, I expect prices to soften.

SALES HIGHLIGHT



Croft Farm, Somerset

Overlooking the Mendip Hills, this is an attractive mixed farm of about 272 acres, with extensive buildings that have the potential for conversion into residential units.

Guide price: £2,900,000



Charlie Evans, Salisbury

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Q&A

Joseph Cannon is the Church Commissioners' Chief Surveyor. He is responsible for the Church of England's property portfolio, of which rural assets are a key element

INTERVIEW **JON RILEY**



“

LANDED ESTATES
SIT WELL WITHIN
OUR LONG-TERM
GOALS

”

How much of the Church of England's portfolio is invested in rural interests?

The portfolio is £2.3 billion, half of which is in land-based investments – including let and strategic land, minerals, forestry and infrastructure. UK land is the largest part by value, comprising more than 100,000 acres across 43 estates, with 40 mineral leases and over 500,000 acres of mineral interests. Within this is our strategic land portfolio of greenfield sites with the potential to provide much-needed housing in the long term.

What is the Church's strategy for investment?

We manage an investment fund of £7 billion in a responsible and ethical way. In 2015, we made about £220 million of charitable distributions towards the Church's ministry and mission. We spend a lot of time considering risk and managing the impacts of shorter-term events and exaggerated market cycles on our ability to make those distributions. Importantly, we carry no direct borrowings so have a fair measure of control. The high level of diversification helps to protect fund performance. This was notable in the global financial crisis when our rural holdings and London residential estates performed defensively.

Why is the rural portfolio important?

Landed estates sit well with our long-term goals and, as an investment, land is solid and tangible. It has an enduring and natural fit with obligations in perpetuity. People will always want to grow and eat food, and there are opportunities to create renewable energy. The Church also has a historical link, owning land across the centuries, some of which can be traced back to the Domesday Book.

Why has the Church been selling off some of its land holdings?

Given our portfolio's prime nature and relatively low-income return, it's important to manage selected sales at key times to maintain and grow distributions to our beneficiaries.

Since 2013, we've sold more than £800 million onto a strongly performing market – the majority strategic land, commercial and residential property. Rural land sold has tended to be vacant parcels outside our core estates. We continue to invest across our portfolios, including farm and strategic land worth around £40 million in the past five years.

Would the Church consider farming in-hand?

The Church has never held a strategic plan to farm. Principally we are investors and don't look for the direct link to commodities – we leave the expertise to our farming tenants. We've carried out some small-scale farming operations, typically during transition periods, such as after a succession of tenancies.

Why has the Church invested in 120,000 acres of forested land?

Our forestry estate has been built up for its diversifying effects on the portfolio. Importantly, we believe it should deliver long-term attractive returns driven by organic growth. The forestry holdings are in Scotland (spruce), the southern US (pine), US Pacific Northwest (Douglas fir) and Australia (Indian sandalwood).

Why do rural investments continue to make sense for the Church as part of a globally diverse portfolio?

Compared with other investments, rural assets offer us low volatility and good long-term returns. Since 2008/09, rural holdings and London property have been our top-performing assets. Farmland also offers us active asset-management opportunities to add value. We can work with tenants to improve the land or diversify its use. There are further opportunities with strategic investments in greenfield sites: we have 50 sites we are taking through the planning permission process with a view to providing 23,000 homes in 20 to 40 years' time. This provides a very strong foundation for the future. ■

KEY CONTACTS

ESTATE & LAND MANAGEMENT

We work with estates and landowners to make the most of their rural assets.

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Buying or renting, our aim is the same: to match people to their perfect property.

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We sell, buy, rent and let properties of all types from our prime central London offices.

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We advise clients across the UK on their development opportunities.

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TAXATION

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