



RURAL BULLETIN

Spring 2010



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Welcome to this latest issue of the Knight Frank Rural Bulletin

In just a few days we will know the outcome of one of the most interesting and closely contested election campaigns in recent decades. In our election focus on page three of this bulletin we take a brief look at what each party is doing to attract the rural vote and how important marginal rural constituencies could be in determining the balance of power in Westminster. Of course, many estate owners are thinking far beyond this election when planning for the future and Knight Frank's wide range of expertise on all aspects of rural property ownership means we are ideally placed to help.

I hope you enjoy reading the articles in this bulletin and find them informative and useful. If Knight Frank can be of assistance in any way you can find contacts for all our rural service lines on the final page. If you are affected in any way by the new proposed high-speed rail line between London and Birmingham announced last month we have set up a dedicated and extremely experienced team to help.

Headlines

- **Farmland values continue to rise, according to Knight Frank research**
- **Commodity prices fail to excite as input costs start to rise**
- **Election special – Rural vote crucial in election**
- **Knight Frank launches Renewables and Energy department**
- **Prime country properties increase further in value**
- **Community Infrastructure Levy introduced**
- **Budget round up**
- **Coastal access plan released**
- **Rural Payments Agency mapping problems**

Farmland values continue to rise

A shortage of supply continues to drive the price of English farmland to new highs, according to the latest results from the [Knight Frank Farmland Index](#).

Average values rose a further 5.4% in the first three months of 2010. This takes annual growth to 15.5% and means the average prices of farmland is now £5,397/acre, with some sales making up to £7,000/acre.

While the availability of farmland has fallen by 13% over the past 12 months (the amount advertised publicly was down by almost 20% in the first quarter of 2010), according to the index, demand increased by 10%.

Much of this demand is coming from overseas investors looking for alternative, tax-efficient and stable homes for their money. The current weakness of sterling also makes now an attractive time to invest in UK property assets for those with dollars and euros to spend.

Most of Knight Frank's farmland sales this year have been to buyers from abroad. Unlike previous years, when most overseas buyers were Irish or Danish farmers, there is no pattern to the current trend with purchasers coming from a wide variety of locations.

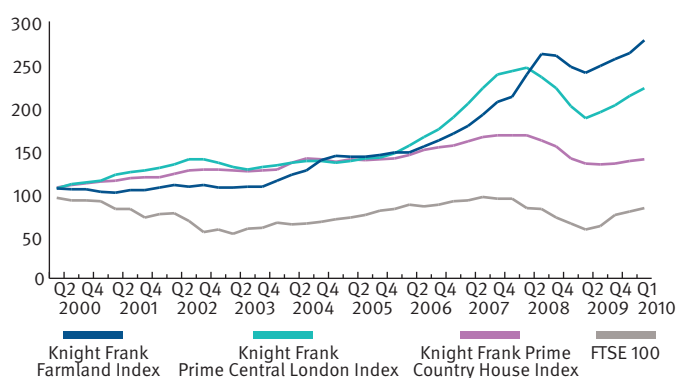
Farmland prices could gain further ground during the rest of the year with the results of the election unlikely to impact on demand. None of the political parties have hinted that they will attack the tax benefits of farmland

ownership. A hung parliament could affect investor confidence in the UK economy as a whole, but this could serve to weaken sterling further making farmland even more of an attractive investment to those overseas.

What we could see, however, is a polarisation in values with land of interest to investors fetching far better prices than land attractive only to neighbouring farmers.

Farmland performance versus other asset classes

Index (Q4 1999=100)



Source: Knight Frank Residential Research



Commodity prices fail to excite as farm input costs start to rise

Anybody who has filled up their car recently will have felt slightly poorer than usual when paying for the fuel. Petrol and diesel prices have increased sharply over the past few months and this is likely to have a significant impact on agricultural profitability this year, especially as other key inputs such as fertiliser are also becoming more expensive.

Arable farmers will be praying for an increase in commodity prices to help offset their extra costs. Wheat prices, however, remain steadfastly below £100/t with little sign of a sudden recovery over the next few months. Economists are predicting that prices will rise over the longer-term as the global demand for food doubles in the first half of this century.

The Soil Association, the UK's principal organic farming organisation, questions this figure, however. It claims that the estimates are based on developing economies switching to a western-style diet, which is neither environmentally nor medically desirable.

Livestock farmers continue to benefit from the weak pound, which makes their products cheaper on the world market, as well as declining sheep and cattle numbers in the UK. TB remains a huge threat to many livestock and dairy businesses and the debate about whether to cull or vaccinate continues to rage. A cull has been approved in Wales, but pro-badger groups and many scientists question its likely effectiveness.

Sterling's weakness is beneficial to UK farmers because it boosts the value of their subsidy payments, which are set in euros. The financial crisis in Greece is, however, helping to strengthen the pound relative to the euro as confidence in the euro falters and anybody claiming subsidy payments may want to consider fixing the rate at which they

will convert this year's claims. Most banks with an agricultural team or specialist forex traders can offer this facility.

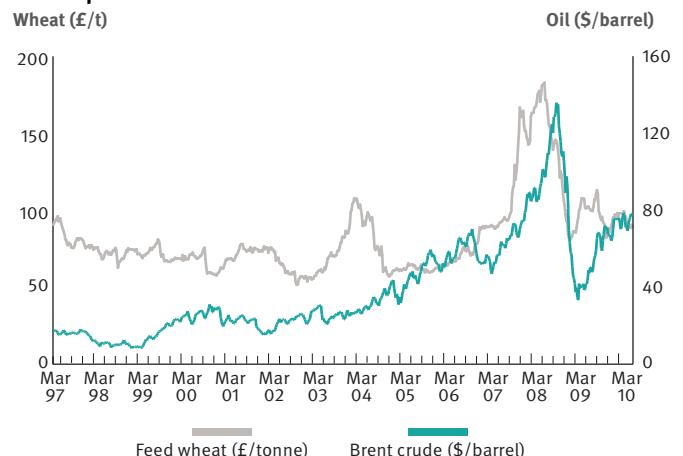
The various members of the EU continue to push their positions in advance of the next overhaul of the Common Agricultural Policy in 2012. A new study from the EU Commission warns of steep cuts in farm incomes and the abandonment of swathes of more marginal farmland if direct payments to farmers are cut. With food security also climbing up the agenda following the chaos caused by the volcanic eruption in Iceland, there is now hope that farmers will get a better deal when an agreement is eventually thrashed out.

Agricultural price changes 2009-2010

Commodity prices	Mar 2010	Dec 2009	Mar 2009	Quarterly change (%)	Annual change (%)
Feed wheat (£/t ex-farm)	92	102	102	-10	-10
Oilseed Rape (£/t ex-farm)	255	241	244	6	5
Cattle (R4L steers p/kg dw)	278	288	285	-3	-2
Sheep (R3L lambs p/kg dw)	416	383	380	9	9
Pigs (DAPP p/kg dw GB av)	143	138	143	4	0
Milk (UK p/litre)	24.16*	24.70	24.37	-2	-1
Skimmed milk powder (£/t)	1,850	1,750	1,550	6	19
Input prices					
Red Diesel (p/litre)	53	45	40	18	33
Oil (\$/barrel OPEC index)	77	74	46	4	67
Fertiliser (£/t AN 34.5%)	225	188	264	20	-15
Soyameal feed (Argentine £/t)	290*	291	255	0	14
Economic indicators					
Interest rates (B of E base %)	0.5	0.5	0.5	0	0
Inflation (CPI)	3.4	2.8	2.9	7	3
£:€ rate	1.12	1.16	1.08	-3	4
£:\$ rate	1.52	1.61	1.43	-6	6

*February

Wheat prices v oil



Sources: HGCA, EIA



Rural vote crucial in General Election

Marginal rural seats could play a significant role in shaping the next government, especially as the prospect of a hung parliament is now a distinct possibility. Almost 70 seats require a swing of under 9% to see a change of party.

The 10 rural seats that would require a swing of under 2% to change hands

	Constituency	Incumbent party	Challenger	% swing required
1	Somerton & Frome	Lib Dem	Con	0.05
2	North-east Somerset	Lab*	Con	0.30
3	Aberconwy	Lab*	Con	0.40
4	Wirral West	Con	Lab	0.40
5	St Austell & Newquay	Lib Dem	Con	0.80
6	Westmorland & Lonsdale	Lib Dem	Con	0.90
7	Preseli Pembrokeshire	Con	Lab	1.00
8	Staffordshire Moorlands	Lab	Con	1.25
9	Selby & Ainsty	Con	Lab	1.30
10	Central Devon	Con*	Lib Dem	1.85

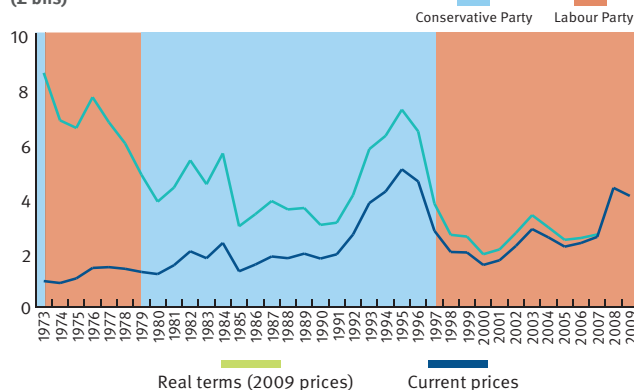
Source: Farmers Weekly * Accounting for boundary changes

Lobbying organisations such as the Country Land and Business Association and National Farmers Union are urging their members to make their votes count. Each of the main parties have said they will try to help farmers and rural communities while protecting the environment and tackling climate change.

In terms of agriculture, it has been exchange rates, especially since the introduction of the euro, that have determined farm incomes rather than which party has been in power. Rural issues will probably take a back seat in the immediate aftermath of the election as whoever gains power will have the pressing issue of cutting the UK's huge national budget deficit to contend with.

Total income from farming

(£ bns)



Sources: DEFRA

The CLA has highlighted on its website the key points of interest to rural constituencies from each party's manifesto. Some selected points with our comments are discussed below. Please click the relevant link for full details.

Conservatives

Reduce unnecessary regulation on the farming industry – much needed but difficult to achieve as much of it is enforced by the EU. A more pragmatic interpretation of EU rules would be a useful first step.

Involve local people in rural planning issues rather than having decisions and policy imposed by remote authorities – sounds good in principal, but has been accused of being a potential charter for NIMBYism.

Introduce a “heat tariff” to encourage the production of small-scale, low-carbon heat – a good idea as much of the emphasis so far has been on renewable electricity production.

Labour

Target 60% of new development on brownfield sites – broad brush targets are not necessarily helpful, but could be useful if redundant farmyards could be classified as brownfield.

Extend the right-to-roam across all the countryside – works well in sparsely populated countries like Sweden, but bound to cause issues on our crowded island.

Provide every household with fast broadband by 2011 using satellites to reach remote areas – good broadband access is vital for rural businesses. The proposed levy on every phone line to fund the scheme is not universally popular.

Liberal Democrats

Impose an annual 1% “mansion tax” on all houses worth over £2m to fund tax cuts for lower earners – bound to be deeply unpopular with affected homeowners and out of step with the traditional income or capital-gain basis of UK taxation.

Double woodland cover by 2050 – could be good for the environment, but is a potential conflict with the need to improve food security and production.

Encourage farmers to invest in anaerobic digestion – AD schemes are arguably underfunded by the current feed-in-tariff scheme so this could be positive, depending on the details.

If you would like to ensure your estate has a strong future regardless of the colour of government please contact Knight Frank's head of strategic planning at sandy.douglas@knightfrank.com or visit the [strategic planning section of our website www.knightfrank.co.uk/rural](http://www.knightfrank.co.uk/rural)



Knight Frank launches renewables division as Feed-in Tariffs revolutionise green-energy sector

The recent introduction of Feed-in Tariffs (FITs) for renewable energy schemes offers rural landowners a huge window of opportunity to generate extra revenue, says Christopher Smith, who will be heading up Knight Frank's new Renewables and Energy team. "I can't think of an estate that won't be able to benefit in some way."

FITs came into operation at the beginning of April 2010 and provide a guaranteed index-linked payment rate for up to 25 years for energy supplied into the national grid from renewable schemes with an output of below 5MW. "They really do make renewable energy a much more attractive option for farmers and landowners to get involved in," says Christopher.

"Although the scheme is designed to encourage small-scale power generation, 5MW is actually quite a lot and could power a large village. This means the revenue streams could potentially be quite lucrative," he adds.

Rates vary depending on the generation method used and the amount of power supplied, but do fall as the schemes get bigger. The table below shows the range of payments currently available for each source of power.

Energy source	Payment tariff (p/kWh)
Anaerobic digestion	9.0 – 11.5
Hydro	4.5 – 19.9
Solar Photovoltaic	29.3 – 41.3
Wind	4.5 – 34.5

For more information please contact christopher.smith@knightfrank.com or go to the renewable energy section of our website www.knightfrank.co.uk/rural

Prime country properties increase in value

The price of prime country property continues to increase across the UK with a shortage of quality houses for sale. Values, on average, rose by 2% during the first three months of the year, according to the Knight Frank Prime Country House Index, and are now 4.3% higher than they were a year ago.

The strongest growth has been in the Home Counties (9.1% over the past 12 months), which have benefited from a surge in overseas

demand for properties in prime central London. This has been driven partly by the ongoing weakness of sterling. Last year Knight Frank sold houses in the capital to almost 50 different nationalities.

This effect has rippled out across the UK (see table) with prices now moving upwards in every region except Scotland where values remain flat.

In terms of property type, farmhouses have seen their value rise by 6.4% on an annual basis. Manor Houses are up by 1.9%, while cottages have risen by 4.8%.

Prime Country Property – price change by region Q1 2010

Region	Three-month % change	Six-month % change	12-month % change
Home Counties	2.9	6.0	9.1
South West	2.2	5.1	5.0
Central England	1.8	4.1	4.5
North	1.7	4.1	3.2

Source: Knight Frank Residential Research

Pre-election budget measures withdrawn

Chancellor Alastair Darling failed to set the world alight when he revealed the details of his pre-election budget on 24 March. There was little of relevance to farmers and landowners, although more generous allowances for Entrepreneurs' Relief and Annual Investment Allowances could be helpful to some.

Also welcome was the Chancellor's U-turn on his proposal to remove valuable tax reliefs on furnished holiday lettings, which could have affected many rural property owners and estates. He was also forced to backtrack on a 10% increase in duty on cider sales. Plans to introduce a "broadband" tax on phone lines were also dropped before the Conservatives would allow the fast tracking of the Finance Act prior to the General Election. All three measures could be reversed if Labour gets back into power.

The high-profile increase in Stamp Duty from 4% to 5% for houses worth over £1m, which will be introduced from 6 April 2011, will not apply to farmland or commercial properties. It will, however, create some interesting opportunities for valuers and accountants when the various asset classes of an estate need to be valued or apportioned. This could be particularly interesting if a landowner has made an election to tax for VAT purposes, say accountants.

Perhaps more notable was what didn't change as part of the Chancellor's quest to balance his books. There was no attack on Agricultural Property Relief and the 18% rate for Capital Gains Tax remains unchanged.



New Community Infrastructure Levy could hit rural businesses

The new [Community Infrastructure Levy](#) regulations, which allow local authorities in England and Wales to impose a charge on most types of development, came into force on April 6.

The levy is designed to fund the infrastructure needed to support development in the local authority's area and is supposed to be quicker and fairer than the existing system. Currently, only 14% of residential planning consents have planning obligations attached to them.

Agricultural buildings, however, will not be exempt from CIL. Rural organisations, such as The Country Land and Business Association, argue that this will harm the rural economy.

Local authorities will not be forced to impose it, but if less income is available from Section 106 agreements some may feel they have little choice. Each authority will be able to set differential charges based on the footprint of the new development and it is hoped that a nil band could be set for agricultural developments.

Authorities implementing CIL will have to put into place a CIL Development Plan before they can implement the levy charge so it is unlikely that any such charging structures will be in place this year.

Coastal access implementation scheme approved

After a period of public consultation the Secretary of State has approved Natural England's approach for the creation and management of a continuous path around the entire open coast of England. The path is one of the requirements of the Marine and Coastal Access 2009 Act.

In an unprecedented legal step, the new act enables Natural England to propose that paths along an eroding coast 'roll back' automatically as coastal change occurs.

Full details of Natural England's scheme can be found on its [website](#). Visitors to the 2012 Olympic sailing events will be the first to benefit from the new coastal access provisions, as work will now start on a 20km stretch at Weymouth.

The government said the path was needed because about a third of the English coast has no legally secure or satisfactory path. The Country Land and Business Association, however, argued that in reality £50m of public funds had been used to secure access to only an additional eight percent of the coast.

Any landowners needing help with coastal access issues should contact angus.harley@knightfrank.com. For other marine issues please contact Knight Frank's marine team at michael.bapty@knightfrank.com or visit the [marine consultancy](#) section of our website www.knightfrank.co.uk/rural

Maps still missing as Single Farm Payment deadline approaches

Anybody planning to claim the single farm payment has until May 17 to submit their forms to the Rural Payments Agency. Many potential claimants, however, are still waiting to be supplied with the correct Rural Land Register maps that are needed for an application.

The current debacle is the latest in a litany of disasters that has dogged the RPA since it was set up five years ago to administer the SFP. Tens of thousands of farmers are believed to be affected and thousands are still waiting to be paid their 2009 claims. The National Farmers Union and rural support charity Farm Crisis Network say they have been flooded with calls from distressed farmers struggling to cope.

Any landowners needing help with mapping issues should contact the head of Knight Frank's rural mapping team at michael.mccullough@knightfrank.com or visit the [digital mapping](#) section of www.knightfrank.co.uk/rural



Ready to help –

Knight Frank offers a wealth of in-depth specialised experience covering the rural property sector. Please get in touch with any of our experts if we can be of any help to you or your business.



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