# RURAL BULLETIN

Spring 2011

**Knight Frank**

## WELCOME TO THE LATEST ISSUE OF THE KNIGHT FRANK RURAL BULLETIN

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**Further information along with more rural property news can be found online at www.KnightFrank.co.uk/Rural and you can follow us on Twitter at www.twitter.com/kfruralproperty**

**For those rural property owners interested in renewable energy there have been a number of important announcements so far this year. The introduction in March of the long-awaited Renewable Heat Incentive was extremely welcome. However, proposed cuts to payments for producing electricity from renewable sources have already undermined confidence in the fledgling Feed-in Tariff scheme.**

Find out more on page 3 and do get in touch with our specialists if you need advice. Landowning organisations are also extremely concerned about some of the potential implications of the proposed Localism Bill. The Rural Bulletin explains why on page 4. Thankfully, other than the general tax changes that will affect us all, the Chancellor's March budget produced nothing new for landowners and farmers to really worry about. There was even some good news. We round up the relevant bits on page 4.

I hope you enjoy reading the articles in this bulletin and find them both 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.

## HEADLINES



**For the latest information on farmland values, including our new research into the international farmland market, please contact andrew.shirley@knightfrank.com**

**If you are thinking of selling your farm or farmland please contact tom.raynham@knightfrank.com**

# Farmland values hit a record high

Farmland values rose by 3% in the first three months of the year and are now 11% higher than 12 months ago, according to the **Knight Frank Farmland Index.** This means the average price of agricultural land in England is now £5,991/acre, a record high. As the graph below shows, farmland has performed far more strongly that many other asset classes over the past 10 years.

This resilience is part of what makes farmland so attractive as an investment and should help ensure values continue to rise steadily during 2011.

When you look at the performance of other investments, such as the FTSE 100, the farmland market has been far less volatile and survived the credit crunch in much better shape. That hasn't been lost on private investors and we have noticed a lot more interest in good quality arable land and farms, especially now that commodity prices have also started to increase.

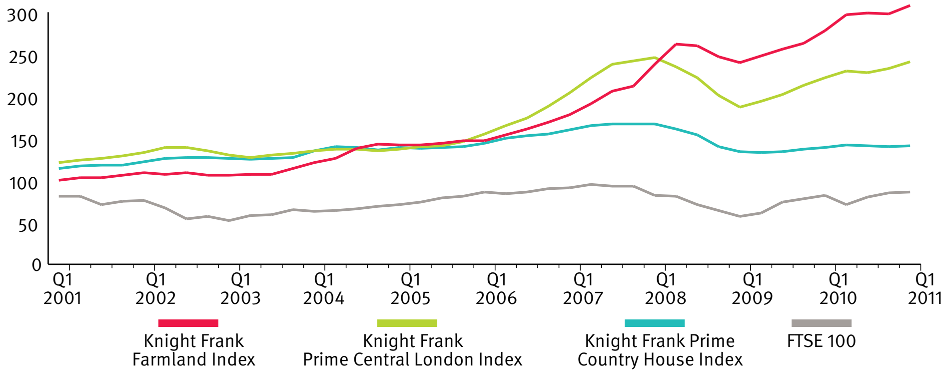
This time last year feed wheat was worth under £90/t. In February prices broke the £200/t barrier. The futures market, which offers farmers the opportunity to sell their crops years in advance, suggests that cereal values will remain firmer for longer than after the last price spike in 2008.

Wealthy individuals have always enjoyed owning land because of its amenity value, tax-planning benefits and as a long-term hedge against inflation, but now they are also starting to look more carefully at its potential to generate an annual return.

Demand also continues to outstrip supply with relatively few potential sellers, particularly at the top end of the estates market, keen to test the water at the moment.

**Farmland performance versus other asset classes**

**Index (Q4 1999=100 )**




Source: Knight Frank Residential Research

# Cereal prices remain strong, but costs also escalate

The sharp rally in cereal prices that we reported in the last issue of The Rural Bulletin has sustained itself for longer than some pundits were predicting. Feed wheat values broke the £200/t barrier earlier this spring. There is still, however, a lot of short-term market volatility. Prices are moving up and down on a daily basis in response to world events and harvest forecasts, which could well be adjusted downwards in the UK if the record dry spell continues.

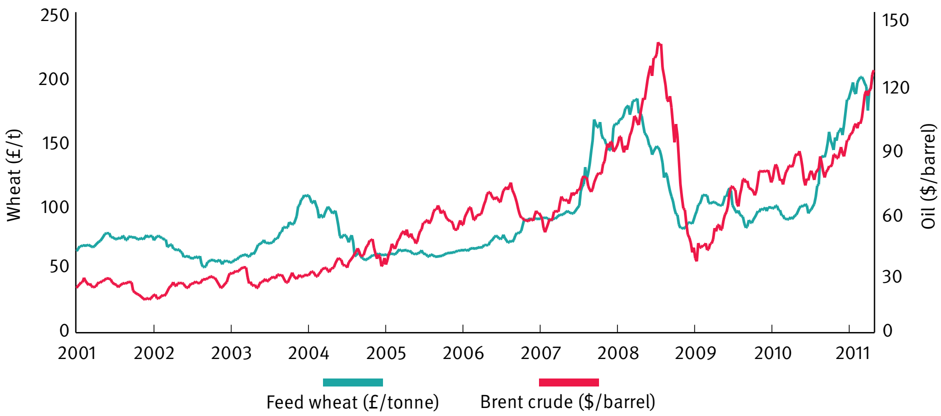
Over the longer term, forward prices of almost £180/t are still available for delivery in May 2012. This suggests that traders believe adverse weather conditions in key grain producing areas and a predicted increase in global grain consumption during 2011 will continue to support prices. Despite this, some fund managers such as Goldman Sachs are beginning to argue that the commodities boom may be running out of steam. They believe that the planned ending of the US government's quantitative easing programme will remove significant amounts of liquidity from the investment markets – liquidity that was helping to fund speculation in commodities.

For arable farmers, much of the increase in cereal prices will be mitigated by a significant rise in the cost of inputs such as fertiliser and fuel, although thankfully the EU has backtracked on a proposal to remove the tax exemption on red diesel used in agriculture. Livestock farmers will also be affected, particularly those in the feed-intensive pork and poultry sectors. Lamb and beef prices have hit record highs this year, which will help soften the pain to a certain extent, but pig producers, who have yet to benefit from any meaningful price rises, are reported to be losing over £20 per animal.

A drastic fall in the size of the UK sheep flock has helped push up lamb prices. In 2010 there were just under 14m breeding ewes in the UK compared with 20m in 1998.

Milk prices, meanwhile, are up 10% on the year, but this is still not enough to compensate for increased input costs, according to the National Farmers Union, which is predicting a further industry exodus unless prices improve (the number of dairy herds in the UK fell from around 26,500 in 2001 to just over 15,716 last year). It claims British dairy farmers receive 3% less for their milk than the EU average. NFU Scotland has proposed a new pricing mechanism that would link farm-gate prices more closely to market prices. If adopted now producers would see higher prices of 31-32p/litre, it says.

**Wheat and oil price changes**




Sources: HGCA, Farmers Weekly, Dairy Co

## Agricultural price changes 2010-2011

| | Q1 2010 | Q4 2010 | Q1 2011 | Annual change (%) | Quarterly change (%) |
|---|---|---|---|---|---|
| **Commodity prices** | | | | | |
| Feed wheat (£/t ex-farm) | 92 | 193 | 195 | 111% | 1% |
| Oilseed Rape (£/t ex-farm) | 255 | 421 | 401 | 57% | -5% |
| Cattle (R4L steers p/kg dw) | 278 | 289 | 291 | 5% | 1% |
| Sheep (R3L lambs p/kg dw) | 416 | 405 | 463 | 11% | 14% |
| Pigs (DAPP p/kg dw GB av) | 143 | 138 | 137 | -4% | -1% |
| Milk (UK p/litre) | 24.1 | 25.98 | 26.57 | 10% | 2% |
| Skimmed milk powder (£/t) | 1,850 | 1,900 | 2,150 | 16% | 13% |
| **Input prices** | | | | | |
| Red Diesel (p/litre) | 54 | 60 | 68 | 26% | 13% |
| Oil ($/barrel OPEC index) | 77 | 89 | 101 | 31% | 13% |
| Fertiliser (£/t AN 34.5%) | 234 | 301 | 328 | 40% | 9% |
| Soyameal feed (Argentine £/t) | n/a | 291 | 287 | n/a | -1% |
| **Economic indicators** | | | | | |
| Interest rates (B of E base %) | 0.5 | 0.5 | 0.5 | 0% | 0% |
| Inflation (CPI) | 3.37 | 3.73 | 4.05 | 20% | 9% |
| £:€ rate | 1.12 | 1.18 | 1.15 | 2.7% | -3% |
| £:$ rate | 1.52 | 1.66 | 1.61 | 5.9% | -3% |

# Renewable energy update

## Renewable Heat Incentive receives warm welcome

The big news in the world of renewables was the introduction of the long-awaited Renewable Heat Incentive (RHI) in March. The RHI will pay people for every unit of heat they produce using eligible renewable technologies (see table) even if they use that heat themselves. It is considered a vital part of the government's drive to reduce the UK's carbon emissions, half of which are produced by the generation of heat for domestic or commercial use.

Initially, the RHI will only be available for schemes that heat commercial properties (this could include B&B businesses), but it will be extended to cover domestic projects from around October 2012. In the meantime, a one-off incentive called the RHI Premium Payment will be available to encourage 25,000 home owners to install renewable heating technology prior to then. The payment will be up to £1,250 depending on the type of technology used (see proposed RHI tariffs table).

Biomass boilers using woodchip pellets will qualify for the RHI and could be of particular interest to farms or estates that have their own supply of waste timber. Biomass boilers also tend to work well as replacements for conventional fossil fuel boilers; the economics are particularly attractive when switching from oil. A 10-bedroom house currently heated by oil could save up to £16,000 using a biomass boiler running on bought-in woodchips.

Other qualifying technologies likely to prove popular include ground source heat and solar thermal.

Ground source heat works by extracting latent heat from the ground by either pumping water into a deep borehole or around a looped network of pipes buried underground. Because ground source systems cannot deliver large temperature changes at short notice they do not always work well with existing radiator-based central heating systems in larger houses. They can, however, work very well as a source of supplementary heat or as custom-fitted systems in new houses with high levels of insulation. Roof-mounted solar thermal panels can also provide useful supplementary hot water.

### Proposed RHI tariffs

| Technology | Likely RHI premium payment | RHI Tariff (p/kWh) |
|---|---|---|
| Biomass (under 200kW) | £950 | 7.6 |
| Ground source | £1,250 | 4.3 |
| Solar thermal | £300 | 8.5 |

**To find out which system would most suit your property please contact David Parry-Jones at david.parry-jones@knightfrank.com or on 01488 688 538. A more detailed description of the RHI is available in the latest edition of The Rural Report. To receive your copy either speak to any member of our rural teams or register at www.KnightFrank.co.uk/Rural**

## Solar schemes hit by emergency review of Feed-in Tariffs

The Feed-in Tariff scheme, which pays a guaranteed rate to those who produce electricity using renewable technologies such as wind and hydro, was introduced to great fanfare last year. The interest from landowners and investors in large-scale solar photovoltaic schemes with many acres of farmland potentially covered in solar panels was, however, far greater than anticipated.

To ensure the scheme remained financially viable the government launched an emergency review of FIT rates earlier this year. It is now proposing that the rates payable to new Solar PV schemes above 50kW be cut drastically from 1 August 2011. This will make field-scale schemes uneconomic and has angered those who had already invested thousands of pounds in potential projects. Critics also say it undermines much of the government's renewables policy because people will be unwilling to invest in schemes where rates could be reduced at short notice.

Despite the cuts, solar PV could still be of interest to those with suitable agricultural buildings as a 500 sq m rooftop scheme may still qualify.

| Scheme size (kW) | Current FIT rate (p/kWh) | Proposed rate (p/kWh) |
|---|---|---|
| Below 50 | 32.9 | 32.9 |
| 50 – 150 | 32.9 (< 100kW) or 30.7 | 19 |
| 150 – 250 | 30.7 | 15 |
| 250 – 5MW | 30.7 | 8.5 |

**Please contact Benjamin Davies at benjamin.davies@knightfrank.com or on 01179 452 638 for further advice.**

## Anaerobic digestion FITs boosted, but not by enough

Many view anaerobic digestion as the technology that has the potential to generate the most renewable energy in rural areas as there is a ready supply of feedstock in the form of crop and animal waste. Unfortunately, creating the steel equivalent of a cow to turn organic material such as slurry or maize silage into methane that can be then used to power a generator to create electricity is very expensive. AD plants do qualify for Feed-in Tariffs, but most experts have argued since their introduction that the rates are too low to encourage the necessary investment. The government has responded by increasing them (see table), but lobby groups say the new rates, particularly for smaller schemes, are still far too low and are pushing for further increases.

| Scheme size (kW) | Current FIT rate (p/kWh) | Proposed rate (p/kWh) | Viable rate* |
|---|---|---|---|
| Up to 100 | 12.1 | 14 | 23.5 |
| 100 – 250 | 12.1 | 14 | 17.5 |
| 250 - 500 | 12.1 | 13 | 14.5 |

*As proposed by the Country Land and Business Association

# Budget 2011

**The following is a round up of the main points of interest for rural property owners contained in Chancellor George Osborne's "Plan for Growth" Budget, which was announced on 23 March.**

## Increase in Entrepreneurs' Relief

The lifetime limit for Entrepreneurs' Relief was doubled to £10m. This means anybody selling a business entity or entities will not have to pay tax on the first £10m of capital gain. Spouses owning a business jointly can combine their allowances to create a potential relief of £20m. Entrepreneurs' relief can be claimed on any number of business disposals until the lifetime limit is reached. It only applies, however, to the sale of a whole business. Selling off a building or field will not qualify. Estate owners and farmers may want to look at how their businesses and holdings are structured to maximise future claims.

## Planning changes

As well as the usual fiscal measures, the Budget also included a commitment to ensure the planning system supports economic growth. One proposal currently being consulted on would allow buildings currently used as commercial premises to be converted to residential uses without planning permission if no external changes are required. Although the proposal does not cover agricultural buildings, many commercial properties on rural estates were originally agricultural buildings that could lend themselves to attractive conversions.

The government also said it wanted to introduce a powerful presumption in favour of sustainable development.

## Stamp Duty Land Tax

Anybody investing in portfolios of properties under one contract will now pay SDLT based on the average value of the properties rather than the total amount. This could lead to big savings.

For example, somebody buying three properties each worth £200,000 for a total of £600,000 will only pay SDLT at the rate of 1% (the rate for transactions under £250,000). Previously, the deal would have attracted an SDLT rate of 4% (the rate for transactions over £500,000). The savings will be even greater for deals that would have been hit by the new 5% rate for transactions over £1m.

## Minerals taxes

Special tax rules for the treatment of mineral royalties have been scrapped. All payments will now be subject to income tax. Previously, only half of any royalties were subject to income tax, the balance being treated as a capital gain.

## Small business rates relief holiday

This will be extended for a further year for businesses with a rateable value of under £12,000 a year. This could help diversification enterprises on farms and estates.

## Furnished holiday lets

The proposed changes to the tax treatment of furnished holiday lets were confirmed. From April 2011, loss relief can only be offset against income from the same business. To qualify for relief a property must be available to let for at least 210 days in a year (up from 140) and actually let for 105 days (up from 70).

## Single Farm Payments

EU Single Payment Scheme Entitlements will be restored to the list of assets that qualify for rollover relief.

## Agricultural Property Relief

This was not affected by the Budget, but will be included in the Office of Tax Simplification's overall review of inheritance tax.

## Fuel Duty

Although the Chancellor's decision to cut fuel duty by 1p/litre got a rousing cheer from his backbenchers, its benefit has been somewhat subsumed by the continued increase in petrol and diesel prices.

**For more advice please contact Alastair Paul at alastair.paul@knightfrank.com or on 01488 688 548.**

# The Localism Bill

Rural property owners could see their buildings or land designated Assets of Community Values (ACVs) as part of the government's Localism Bill, which aims to shift power on issues such as planning from central government to local communities.

Although the aim of this part of the bill is widely perceived as a laudable attempt to protect the declining number of village services such as pubs and post offices, it could have far wider ramifications. What constitutes an ACV is worryingly vague under the current wording of the bill, as is the definition of who can make the nominations. The worry for landowners is that dog walkers, for example, could nominate a particular field.

If a nomination is accepted by the local authority, the property in question will be listed as an ACV for five years. The local community will then have the right to bid if the owner ever decides to dispose of it. Although the owner does not have to accept the bid, it could affect their ability to sell the property at a time of their choosing, which may have an impact on the price they can obtain.

The Country Land and Business Association is also concerned that the right to bid may, over time, turn in to a pre-emptive right to buy.

## HS2 update

The proposed high-speed rail link between London and Birmingham (HS2) continues to attract huge amounts of controversy, although the transport secretary Philip Hammond's belief in the scheme's value seems unwavering. Anybody who needs to sell their property urgently, but believes that HS2 has reduced its value, can apply to the Exceptional Hardship Scheme (EHS). The government will buy the properties of successful applicants for the full market value that could be achieved if HS2 did not exist. So far only 38 applications have been approved.

**Any affected property owners needing advice on HS2 compensation or the scheme's long-term implications for them should contact James Del Mar at james.del.mar@knightfrank.com or on 01488 688 507.**

## Agricultural Workers' Occupancies

Estate and farm owners who provide houses for their farm workers should beware of unintentionally creating protected long-term tenancies that could impact on their ability to sell the properties in the future. Those workers covered by an Assured Agricultural Occupancy have security of tenure even if they retire. The issue, which sometimes arises by default when a worker's role changes, can be resolved by serving a notice prior to the commencement of the tenancy that states the tenancy should be an Assured Shorthold Tenancy.

**For more information please contact James Prewett at james.prewett@knightfrank.com or on 01179 452 642**

## Country house market edges higher

The average price of prime country houses rose by 0.5% in the first quarter of 2011, partially reversing some of the falls seen in the second half of 2010, according to the Knight Frank Prime Country House Index. Price growth in the country is still not evenly spread, with slight falls recorded in the north of England. The strongest growth was recorded in the south east (1%) and the south west (1.2%).

The UK housing market has been experiencing difficult conditions since the middle of last year, and the prime country house market did not escape this trend. Prices fell in the second half of 2010 across most regions. However, the revival in the London property market since the autumn has begun to filter through to the country house market. With foreign buyers happily buying over 50% of central London £2m+ properties, some of these vendors are now looking to move into the country house market.

For London buyers, moving to the country at the current time makes a lot of sense. Prices in London are 30% higher then they were in March 2009. In the country, prices are up only 7% over the same period. In short, this means that someone selling in London and moving to the country has more than 20% of additional spending power now compared with two years ago.

| Price change | Cottage | Farmhouse | Manor House | Average |
|---|---|---|---|---|
| Q1 2011 | 0.8% | 0.9% | 0.0% | 0.5% |
| Annual | 1.9% | 2.0% | 1.3% | 1.8% |

Source: Knight Frank Residential Research

**For more information please contact Liam Bailey at liam.bailey@knightfrank.com**

## Agricultural Property Relief victory for taxpayer

A tax tribunal has issued a welcome ruling against the taxman in the case of Golding versus Her Majesty's Revenues and Customs (HMRC). HMRC had originally ruled that the house on Mr Golding's 16-acre smallholding, which he had farmed for 65 years, was not covered by Agricultural Property Relief (APR) after his death in 2007. The First-tier Tax Tribunal overturned the decision on appeal, dismissing HMRC's claim that the farmhouse was not character appropriate. HMRC is increasingly challenging APR claims on farmhouses and had this case been lost it would have been a blow for many farmers hoping to qualify. Forward planning is vital to ensure successful APR claims.

**For expert advice on this issue please contact Tom Barrow on tom.barrow@knightfrank.com or on 01179 452 641.**

## The Rural Report out now

The spring edition of Knight Frank's Rural Report is now available. The latest issue includes a guide to the Renewable Heat Incentive and a round up of farmland values around the UK. To request your free copy please go to **www.KnightFrank.co.uk/Rural** and click on the front cover image.

# READY TO HELP

**Knight Frank can advise on all aspects of rural property ownership. Its principal service lines and the relevant contacts are listed below. Further details are available on our website at KnightFrank.co.uk/Rural**


**Michael Bapty**


**Tom Barrow**


**James Del Mar**


**Sandy Douglas**


**Robert Fanshawe**


**Angus Harley**


**Clive Hopkins**


**Percy Lawson**


**David Parry-Jones**


**Alastair Paul**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Knight Frank's clients include traditional estates, institutional landowners, country house owners, farmers, charities, local government, energy and utility companies, rural businesses, private investors and funds.