RURAL BULLETIN

Summer / Autumn 2011

Knight Frank

Andrew Shirley
Head of Rural Property Research
020 7861 5040

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

WELCOME TO THE LATEST ISSUE OF THE KNIGHT FRANK RURAL BULLETIN

It has been a challenging summer for farmers, with the weather veering from periods of blazing heat to tropical downpours. Grain markets have also been extremely volatile and our commodity price round up on page 2 looks at this in more detail.

There have also been some significant announcements from Westminster and Brussels. On page 3 we discuss the implications of a worrying EU leak on the reform of the Common Agricultural Policy, while on page 4 there is a summary of the government's draft National Planning Policy Framework, which, on the face of it, looks positive for landowners. Of course, as always with these things, there are some important caveats.

Knight Frank continues to strengthen its rural team and we have just appointed a new head of regional farm sales and valuations in central England and the Welsh borders. You can find James Prewett's details at the bottom of this page.*

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

If you are thinking of selling your farm or farmland please contact tom.raynham@knightfrank.com in London or james.prewett@knightfrank.com in Cirencester.

***James, from a local farming family, has recently been appointed to head up our farm sales and valuations team in central England and the Welsh borders. Do get in touch for a free market appraisal.**

Farmland market breaks £6,000/acre

Farmland values in England rose by close to 3% in the second quarter of 2011, according to the **Knight Frank Farmland Index,** and are now almost 7% higher than they were 12 months ago and double the levels seen five years ago. At an average of £6,156/acre, the price of English farmland has now broken the £6,000/acre barrier for the first time.

Farmland continues to outperform many other asset classes, although gold is still leading the way as investors look for a safe haven during the current economic uncertainty.

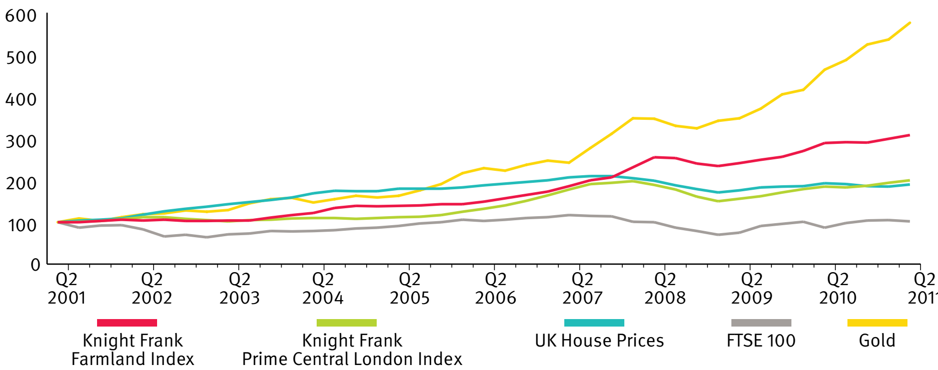
A shortage of good farms for sale and strong demand from farmers, investors and lifestyle buyers have helped push up prices. There are, however, signs that the market is starting to flatten and we expect further growth to remain relatively steady for the rest of the year.

Where there is strong demand from neighbours, or the land is of the scale and in the right location to be of interest to investors, we are seeing prices of up to £9,000/acre being achieved. But more land is starting to become available and purchasers are increasingly wary of spending money on lower quality land or smaller blocks that will not add any economies of scale to existing holdings.

Although prices for agricultural commodities such as wheat did hit record highs during the spring, markets are becoming increasingly volatile (see page 2). Efficient farming businesses are still keen to expand, but are being relatively cautious at the moment, especially as the global economic outlook becomes more uncertain.

Farmland performance versus other asset classes

Index (Q2 2001=100)



Source: Knight Frank Residential Research

Commodity market round up

The UK's 2011 wheat crop has proved to be generally better than expected, despite difficult growing and harvesting conditions.

Production has been revised upwards to 14.5m tonnes by the International Grains Council. Yields at 3t/acre are just 3% below the five-year average, although there have been wide variations across the country and drying costs will be an issue for some farmers. Spring barley, however, has performed poorly with £40/t premiums available for malting quality grain.

An equally mixed picture is being experienced across the world. French wheat yields of 2.7t/acre are 8% below average, while the proportion of the German wheat crop expected to hit bread-making quality could slip to 82%, down from a forecast 93%.

In the Black Sea regions grain production is set to be better than 2010, with both Ukraine and Kazakhstan raising their production estimates recently. Ukrainian maize production is set to hit a record 17-18m tonnes.

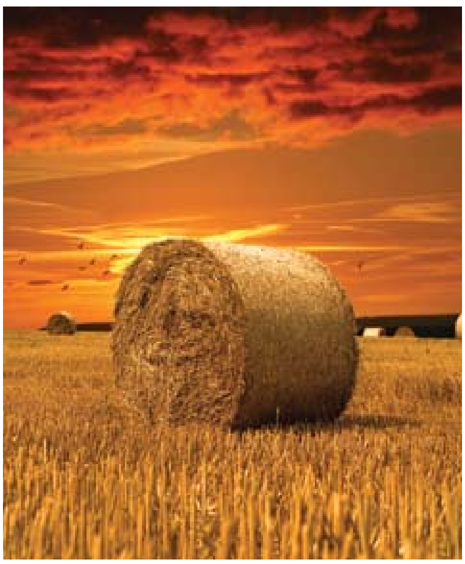
Prices have been increasingly volatile in response to frequently revised production estimates and the latest poor global economic data. UK feed wheat values have now fallen to around £155/t, some way below the £200/t peaks of earlier this year, but still significantly above 2010 levels. On the futures market over £170/t is available for pre-harvest deliveries in 2012.

It is difficult to predict how prices will continue to perform. But, given growing concerns over the state of the global economy, a swift hike in prices looks unlikely. There is, however, a feeling that the US treasury may have to resort to another round of quantitative easing, which may encourage investors back into the commodity markets.

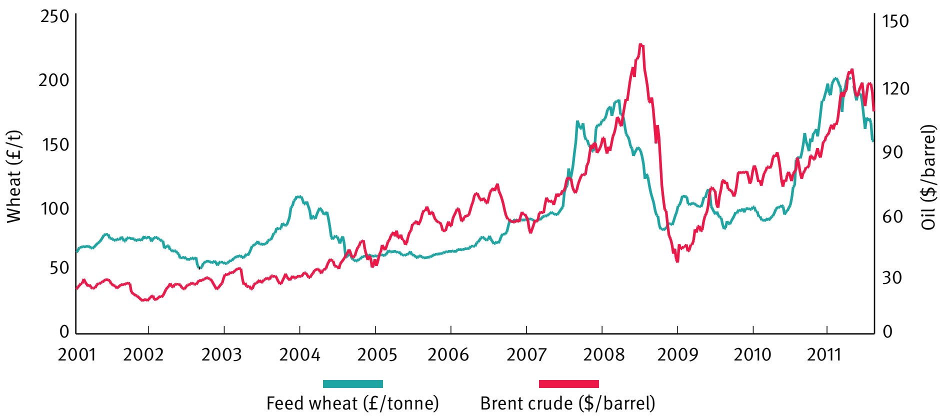
Meanwhile, dairy farmers are demanding government action to give them the power to negotiate better contracts that will allow them to receive a fair price for their milk.

DairyCo's annual *Supply Chain Margin* report shows strong global demand for dairy products pushed up commodity market returns by 31% in the 2010/2011 milk year, but UK farm-gate prices rose by only 5%. UK dairy farmers currently receive about 4p/litre below the EU average, says the National Farmers Union.

The majority of stock farmers are hoping there will be no successful last-minute challenges to the government's proposed trial badger cull, due to commence next summer. Bovine TB, which many believe is spread by badgers, has cost the industry £500m over the past 10 years. The bill could double over the next decade if no solution is found.



Wheat and oil price changes



Agricultural price changes Q1 2011-Q2 2011

	Q2 2011	Q1 2011	Q2 2010	Annual change (%)	Quarterly change (%)
Commodity prices					
Feed wheat (£/t ex-farm)	168	195	97	73%	-14%
Oilseed Rape (£/t ex-farm)	379	401	245	55%	-5%
Cattle (R4L steers p/kg dw)	308	291	272	13%	6%
Sheep (R3L lambs p/kg dw)	432	463	369	17%	-7%
Pigs (DAPP p/kg dw GB av)	152	137	147	4%	11%
Milk (UK p/litre)	26.61	26.56	23.85	12%	0%
Skimmed milk powder (£/t)	2,250	2,150	2,000	13%	5%
Input prices					
Red Diesel (p/litre)	67	68	56	20%	-1%
Oil ($/barrel OPEC index)	109	110	73	49%	-1%
Fertiliser (£/t AN 34.5%)	319	328	208	53%	-3%
Soyameal feed (Argentine £/t)	272	287	259	5%	-5%
Economic indicators					
Interest rates (B of E base %)	0.5	0.5	0.5	–	–
Inflation (CPI)	4.19	4.05	3.24	–	–
£:€ rate	1.11	1.15	1.22	-9%	-3%
£:$ rate	1.6	1.61	1.5	7%	-1%

Sources: HGCA, Farmers Weekly, DairyCo

CAP reform special

Leaked EU documents detailing proposals for the next round of Common Agricultural Policy (CAP) reform offer some insight into the current, and slightly worrying, thinking of policymakers in Brussels.

Greening measures

As expected, there is a heavier emphasis on the environment with a suggested 30% of Pillar 1 subsidy payments earmarked for "greening" measures. These include putting at least 5% of a farm's land into "ecological focus areas" and ensuring arable units grow at least three crops, each accounting for 5%-70% of acreage.

New payment entitlements, more chaos?

The current system of Single Farm Payment (SFP) entitlements could also be overhauled with a new set of entitlements allocated to every claimant. Given the chaos that ensued when the SFP was originally introduced, as potential recipients looked to maximise their initial allocations, this is concerning and could have implications for landlord/tenant relationships and the sales and rentals markets if not properly handled.

Capping concerns

One of the most worrying proposals contained within the leaked document is the suggestion that subsidies (excluding the proposed 30% "greening" component) will be progressively capped until a certain cut-off point is reached (see table below) after which no payments will be made.

Subsidy payment	Proposed cut
€150,000-€200,000	20%
€200,000-€250,000	40%
€250,000-€300,000	70%
€300,000+	100%

Claimants will, however, be able to offset "salaries effectively paid and declared the previous year, including taxes and social contributions related to employment" against the thresholds. Quite how, if adopted, this would be calculated and checked remains to be seen. It does, however, clearly and unfairly discriminate against those who have structured their businesses efficiently to reduce salaries. Those using contractors will be hardest hit.

It is estimated that around 2,700 recipients in the UK will be affected based on their 2010 claims. While it may be tempting to look at restructuring affected businesses – splitting into separate units, for example – to avoid the capping, there will be restrictions in place to mitigate against any such "artificial" moves after the publication of the proposals.

Timescale slipping?

Under the current CAP reform timetable, any new system is supposed to be in place by 2014. Many within the industry, however, are sceptical that this can be achieved. The commission's official draft legislative proposals were due out earlier this year, but are now not expected until October.

Apart from this slipping of the timetable, under the terms of the 2009 Lisbon Treaty the proposals will now need to be negotiated by the European Parliament as well as the Council of Ministers. Given Europe's general inability to make quick decisions, such a complex reform with such widely divergent interest groups involved may take significantly longer than timetabled to complete.

Some commentators are saying reform is unlikely even by 2016, but Richard King, a CAP reform expert at farm business consultant Andersons, believes it should still be achievable by 2015.

Subsidy details removed from web

One piece of good news for landowners and farmers to come out of Europe is the removal of thousands of recipients' names from a DEFRA website detailing subsidy payments.

To the chagrin of many, the department had previously put online details of every claimant's subsidy payments in a bid to offer "transparency" regarding the use of EU funds. However, following a challenge by some German farmers, the European Court of Justice ruled that publishing such data was a breach of privacy.

All references to sole traders and family partnerships have now been removed. This means that details of only around 17,000 of the UK's 210,000 claimants remain online.

What payment rates if the eurozone collapses?

Subsidy payments are set in euros and converted into pounds each year at the prevailing rate on 30 September. A weaker pound on that day, therefore, is always good news for UK claimants.

Currently, despite the economic woes of countries such as Greece, the pound:euro exchange rate is similar to that used in 2010 (86 pence per euro). If that rate remains unchanged between now and 30 September, payments will remain broadly similar.

What would happen, however, if the eurozone collapses? Fanciful thinking perhaps, but The Economist magazine now believes there is a 40% chance that it could happen over the next few years. In that situation, we would probably go back to a system similar to the one used before the introduction of the euro in 1999.

Back then, payments were set using ECUs (The European Currency Unit), an artificial basket currency that formed the basis of the European Monetary System, which the UK was only briefly part of. Given the circumstances that would require the reintroduction of the ECU, it would seem highly likely that the exchange rate for UK claimants would be less favourable and their subsidy payments would fall in value.

What action should I take now?

It should be stressed that there is a long way to go before this latest round of CAP reform is set in stone and the proposals discussed could still be revised substantially.

However, we would advise anybody claiming subsidies to take expert advice about the potential implications for their business now. In addition to the leaked proposals, Brussels is determined to ensure payments are only received by those considered "active" farmers, which may cause concerns that need to be addressed for those not involved with farming activities on a day-to-day basis.

Longer term, the ultimate aim for all businesses should be the creation of a strategy that will allow them to flourish without support payments.

Although subsidy payments accounted for around £3bn of the UK farming sector's estimated £4.3bn Total Income from Farming (TIFF) in 2010, they will inevitably continue to decline in real terms, regardless of which new system is introduced in 2014, 2015, or even 2016.

For further advice please contact Percy Lawson of Knight Frank's Estate Management team at percy.lawson@knightfrank.com or on 01488 688 513.

National Planning Policy Framework launched

Planning has long been an area of concern for many rural businesses who have often felt that the system was less about planning for the future, but more about stifling development.

The recent launch of the government's draft National Planning Policy Framework goes some way to addressing that issue. The draft, which ambitiously tries to replace over 1,000 pages of various national guidance notes with one 52-page document, includes a pro-growth presumption in favour of "sustainable" development.

This means that the default answer to any applications should be "yes". In the foreword to the document planning minister Greg Clarke says: "Development that is sustainable should go ahead, without delay".

Predictably, some environmental groups have denounced this as a developer's charter. Of course, in reality, it is far from that. The term sustainable development invites a plethora of interpretations and the opponents of new developments will no doubt seize on this to campaign against schemes that they disapprove of. Likewise, local stakeholders will have increased powers to plan their neighbourhoods, enabling and preventing development, irrespective of whether they are in agreement with the Local Authority.

Other key changes include giving an increased role to local stakeholders, a commitment to increased housing delivery and a more flexible approach to the Green Belt, renewables and the environment.

The Country Land and Business Association has welcomed much of the new draft, including some specific references to supporting the rural economy, but it is concerned about "Local Designation of Green Space" – a new right for local communities to identify and protect areas they perceive as being threatened.

Knight Frank's planning team has produced a detailed guide to Localism and the National Planning Policy Framework which can be viewed via www.knightfrank.co.uk/rural. The consultation on the draft closes on 17 October. Those wishing to respond can do so online at www.communities.gov.uk or via james.del.mar@knightfrank.com who will put you in touch with the appropriate member of Knight Frank's Planning team.

Knight Frank expert verdict

The scale of reform will mean as many changes for rural estates as city sites and there is explicit support for the rural economy and encouragement for appropriate uses in the countryside. As expected, housing is a key element of this, but there are also more subtle reforms. The Green Belt will remain, but a second tier of 'safeguarded' land is to be introduced, designating a similar level of restriction to new property assets in the medium term. At the same time, there is support for estate diversification, not least through opportunities for renewable energy schemes. As the new system gets fully up and running the message for property owners should be to get involved, particularly at the local level. The reforms provide a good opportunity for those who engage at an early stage to benefit and a potential risk for those who do not.

Jonathan Manns,
Senior Planner, Knight Frank

Village Green consultation launched

Village greens conjure up images of summer fetes, cricket matches and other idyllic rural pastimes, but they can also be very controversial. Once a piece of land has been designated as a village or town green it cannot be developed, regardless of the local plan or any planning consents granted.

Landowners are now complaining, with some justification, that a growing number of applications are spurious and are simply to prevent development rather than create a genuine amenity for the local community. Not only can this hinder property owners from legitimately maximising the value of their land, but it is increasingly becoming a barrier to the development of much-needed affordable rural housing.

Recognising this, DEFRA has launched a consultation on potential reform of the registration system for village and town greens. The consultation asks if a better balance can be struck between protecting quality green spaces valued by local people and securing the new homes, jobs and essential infrastructure that the country needs.

The consultation closes on 17 October. If you are affected by this issue please contact Alastair Paul at alastair.paul@knightfrank.com or on 01488 688 548. Our mapping team can also help clarify any ownership and boundary disputes. Please contact Michael McCullough at michael.mccullough@knightfrank.com or on 01488 688 508 for more details.

Averting a crisis in heritage

The UK's heritage is in real danger because of a "dysfunctional" system and government misconceptions about who actually funds its maintenance and repair, according to a recently released report from the Country Land and Business Association.

Averting Crisis in Heritage: A CLA Report on Reforming a Crumbling System criticises both the government and English Heritage, who it claims are in denial about the extent of the problems facing heritage assets in England and Wales. It says parts of the government seem to believe heritage is still paid for by the state, whereas most funding comes in fact from its owners. The CLA also believes English Heritage's latest plan diverts resources from the real problem by focusing on and designating new areas of heritage.

Knight Frank's Building Consultancy and Architecture team includes experts in the restoration and maintenance of heritage assets. Please contact Andrew Waller at andrew.waller@knightfrank.com or on 01488 688 512 for more information.

Country house market slips

The average value of prime country houses in England fell by 0.7% in the second quarter of 2011, according to the Knight Frank Prime Country House Index. This latest decline pushed annual growth into negative territory (-1.4%) for the first time since Q4 2009.

The strongest sector remains the £1m-£3m sector in the south east and south west, which has seen price growth of 10% since the post-Lehman low of mid-2009.

There are early indications that demand from London may begin to place upward pressure on country prices. With a 20% year-on-year growth in buyer registrations in June, London prices are continuing to soar, with 34% growth in prices for the capital's best addresses over the past year.

Knight Frank expects the full-year price growth in 2011 to be 2% for country houses worth less than £1m and more than £5m. Prices for houses valued at between £1m and £5m are expected to remain flat.

Taxman decides not to appeal Golding case

Her Majesty's Revenue and Customs (HMRC) has decided not to appeal the result of the Golding Inheritance Tax case.

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. In May, however, 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. Forward planning is vital to ensure a successful claim and this retreat is good news.

For expert advice on this issue please contact Tom Barrow (the head of our Rural Valuations team) on tom.barrow@knightfrank.com or on 01179 452 641.

HS2 likely to go ahead despite consultation backlash

The public consultation on the proposed high-speed rail link between London and Birmingham (HS2) closed at the end of July. There were about 40,000 responses to the consultation and the government has admitted that most were negative.

Despite this, transport secretary Philip Hammond does not believe that there is a significant groundswell of public opinion against HS2 and seems determined to press ahead with the scheme.

Anybody who needs to sell their property urgently, but believes that HS2 has reduced its value, can still apply to the Exceptional Hardship Scheme (EHS), but this option will close next year so immediate action is advised. Knight Frank has been involved with a number of successful applications.

For further information please see our latest HS2 bulletin at www.knightfrank.co.uk/hs2 or contact James Del Mar, the head of our dedicated HS2 team, at james.del.mar@knightfrank.com or on 01488 688 507.

Solar subsidy cuts confirmed

The government has confirmed a drastic reduction in its support for large-scale solar photovoltaic schemes as proposed in its emergency review of the Feed-in Tariff system earlier this year. From the beginning of August only schemes under 50kW qualified for a FIT rate (32.p/kWh) generally judged sufficient to justify the high cost of installing Solar PV systems.

Anybody, however, who is close to getting planning permission for a larger scheme may want to finish the process. The rising cost of electricity may make even unsubsidised renewable energy viable in the not-too-distant future.

Knight Frank's Renewable Energy team has access to some of the power industry's most respected pricing forecasts. For more information please contact Oliver Routledge at oliver.routledge@knightfrank.com or on 01179 452 636.

Statutory test for UK residency to be introduced

There has never been a statutory definition of what constitutes UK residency. This has made it tricky for overseas-based owners of UK property, many of whom who own large country estates, to self-assess whether they are resident or not, which can have a large influence on their tax bills.

However, a new test is set to be introduced from 6 April 2012 to help clarify matters. The government is currently consulting on its proposals, some key features of which are outlined below.

Anybody who spends 183 days here in a tax year, or whose homes are all in the UK, or who works full time in the UK will be treated conclusively as a resident.

The test for conclusive non-residency is slightly more complicated, but depends on previous residency status and how many days are spent in the UK. Somebody, for example, who has not been resident in the UK for the past three years will qualify if they spend fewer than 45 days in the country in one tax year.

Where residency status cannot be determined by the above, a combination of "connection" factors and days spent in the UK will be used. Connection factors include family resident in the UK, availability of accessible accommodation in the UK, substantial employment or self employment in the UK, presence in the UK of more than 90 days in either of the two previous tax years and more time spent in the UK than any other country.

Please contact Sandy Douglas, head of our Strategic Estate Management team, at sandy.douglas@knightfrank.com or on 01488 688 502 for advice on rural property ownership structures

Autumn issue of The Rural Report out soon

The autumn issue will include the latest on renewable energy, maximising the returns from small estates and an interview with the head of The Crown Estate's rural estate.

To request your free issue of The Rural Report, Knight Frank's specialist publication for forward-thinking rural property owners, please email andrew.shirley@knightfrank.com. To read the spring edition please go to www.knightfrank.co.uk/rural

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


James Prewett


Michael McCullough


Tom Raynham


Oliver Routledge


Andrew Shirley


Christopher Smith


Andrew Waller

Agricultural Valuations
Tom Barrow
01179 452 641
tom.barrow@knightfrank.com

Building Consultancy
Andrew Waller
01488 688 512
andrew.waller@knightfrank.com

Country House Consultancy
Angus Harley
01488 688 511
angus.harley@knightfrank.com

Country House Renewables
David Parry-Jones
01488 688 538
david.parry-jones@knightfrank.com

Equestrian Property Sales
Robert Fanshawe
020 7861 1373
robert.fanshawe@knightfrank.com

Estate Management
Percy Lawson
01488 688 513
percy.lawson@knightfrank.com

Estate Sales
Clive Hopkins
020 7861 1064
clive.hopkins@knightfrank.com

Farms and Land Sales
Tom Raynham
020 7861 1578
tom.raynham@knightfrank.com

Investment Land Management
Alastair Paul
01488 688 548
alastair.paul@knightfrank.com

Mapping and GIS
Michael McCullough
01488 688 508
michael.mccullough@knightfrank.com

Marine Consultancy
Michael Bapty
01179 452 635
michael.bapty@knightfrank.com

Renewable Energy
Christopher Smith
01179 452 630
christopher.smith@knightfrank.com

Renewable Investments
Oliver Routledge
01179 452 636
oliver.routledge@knightfrank.com

Renewable Valuations
James Prewett
01285 659 771
james.prewett@knightfrank.com

Rural Consultancy
James Del Mar
01488 688 507
james.del.mar@knightfrank.com

Rural Property Research
Andrew Shirley
020 7861 5040
andrew.shirley@knightfrank.com

Strategic Estate Planning
Sandy Douglas
01488 688 502
sandy.douglas@knightfrank.com

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.