THE

RURAL REPORT

A UNIQUE GUIDE TO THE ISSUES THAT MATTER TO LANDOWNERS

Knight Frank

SUMMER 2010

ELECTION FOCUS
What the coalition means for the countryside

RURAL PROPERTY MARKETS
Agricultural land prices treble in a decade

RENEWABLE ENERGY
Why feed-in tariffs are set to boost your income

WELCOME TO THE FIRST ISSUE OF THE RURAL REPORT, KNIGHT FRANK'S FOCUS ON THE ISSUES THAT MATTER TO ITS RURAL CLIENTS AND THEIR ADVISORS

CONTRIBUTORS

ANDREW SHIRLEY
Andrew is head of rural research at Knight Frank. Previously he was property and business editor at Farmers Weekly 06

ANTHONY ELLIS
Anthony is a freelance photographer recently back from assignment in Afghanistan. His work has been published in The Independent 08

CHRISTOPHER SMITH
Christopher is Knight Frank's renewable energy expert. He advises some of the UK's largest landowners including the Crown Estate 10

JAMES DEL MAR
James heads Knight Frank Rural Consultancy. Specialising in strategic investment and management issues, he advises rural property landowners - from charities to funds to private clients 12

THE RURAL REPORT
Editor - Andrew Shirley
andrew.shirley@knightfrank.com
Marketing - Caroline Styles
caroline.styles@knightfrank.com
Design & art direction - GraphicDialog
info@graphicdialog.co.uk
Photography - Anthony Ellis
contact@anthonyellisphotography.com
Printing - 4 Print Ltd
Published by Knight Frank LLP

Launching a new magazine is always exciting, but never more so than during times of profound change. Barely six weeks into the new era of political partnership at Westminster and we are already seeing early signs of what it means to be represented by a coalition government battling to cut a huge national deficit.

Some of what we have seen is unwelcome, the increase in Capital Gains Tax being a particularly pertinent example for many rural property owners. But where there are challenges there are also opportunities. The Rural Report's wide variety of articles and contributors capture some of that spirit of optimism.

Landowners are well placed to help the new coalition deliver on its promise to increase the generation of energy from renewable sources and increase the provision of affordable rural housing. But as CLA president William Worsley points out in our interview with him on page 12, the challenge is to persuade government to work in partnership with those who can help.

Renewable energy in particular offers landowners huge potential to boost the income from their farms or estates, and we look at the opportunities available in more detail on page 10. Our new Renewables and Energy team is a good example of how Knight Frank can help its clients cope with the changing economic, environmental and political landscape.

Planning policy is another area where the countryside and its inhabitants are set to experience fundamental change, both at a local and national level. The government wants to devolve more decision making to local communities and has already announced that it plans to scrap the Infrastructure Planning Commission and get rid of Regional Spatial Strategies. We have specialist teams ready to advise on what all this could mean for your business.

Our special focus on page 4 looks at other areas where the new government's policies will impact on rural communities and asks key lobby groups and business leaders what the coalition's priorities should be. Ultimately, however, as one of our contributors - The Crown Estate's Christopher Bourchier - explains, whatever politicians do to facilitate change the responsibility for achievement lies with us.

I do hope you enjoy reading The Rural Report and please get in touch with me or any of my colleagues if we can help you achieve your goals. You can find all our contacts at the back of the magazine.

Sandy Douglas
Knight Frank Rural Consultancy

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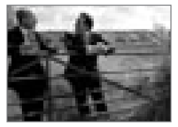

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WELL HUNG AT WESTMINSTER

The Rural Report looks at what the Conservative Liberal Democrat pact means for the rural property owner and asks lobby groups and businesses what impact the coalition will have on their sectors and where its priorities should lie

Unusually for the new coalition, the Department for Environment, Food and Rural Affairs is an entirely blue affair, with all the ministers drawn from Conservative ranks. Looking at the new recruits' CVs (see right) there appears to be some genuine agricultural interest - as one of our contributors points out "some of them even shoot". Hopefully more emphasis is put on the food and rural affairs part of their brief, which under the previous administration seemed to suffer at the expense of the environment.

From the perspective of farm incomes Westminster has had, historically, relatively little influence. But with the EU's Common Agricultural Policy due to be reformed in a few years' time and serious issues such as bovine TB facing the sector, a more farmer-friendly team will be helpful.

The Conservative Nick Herbert, long tipped to take charge of DEFRA, finds himself instead in charge of policing at the Home Office. The efforts of rural lobby groups to earn Mr Herbert's ear might not be in vain, however, if he addresses the serious dearth of rural policing.

Renewable energy will be a key income generator for rural landowners and the appointment of the pro-renewables Liberal Democrat Chris Huhne to run the Department of Energy and Climate Change looks positive. The coalition already seems very keen to build on the incentives introduced by the Labour government (see p10), with increased support for anaerobic digestion a priority.

Planning policy, covered by Tory Eric Pickles at the Communities and Local Government ministry, has proved the bane of many rural businesses. At first glance, the Conservative's aim to hand more control over planning decisions to local communities seems sensible, but there is a danger that it could end up being a charter for NIMBYism. The provision of affordable housing is high on both parties' agendas. Involving landowners profitably in the process could prove very beneficial.

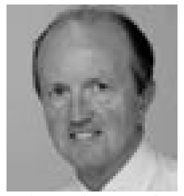
Of course, the real impact for most of us will come from the Treasury as it battles to cut the UK's national deficit, not just through the inevitable tax rises - landowners should already be taking advice on the potential impact of the hike in Capital Gains Tax - but via government cost cutting in areas such as match-funding farm support payments and the Rural Development Agencies. In just a few weeks of government, £6bn has already been saved by the coalition, but there is undoubtedly much more pain to come.

Knight Frank can help you plan for the future whatever the colour of government. All the rural team's contacts can be found at the end of the magazine or at knightfrank.co.uk/rural

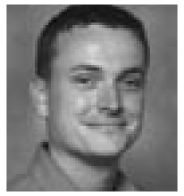

1 Simon Hart MP


2 Peter Kendall


3 Oliver Harwood


4 Christopher Bourchier


5 Mark Avery


6 Ben Stafford


7 George Dunn


8 Allan Wilkinson

WHAT DOES THE ELECTION RESULT MEAN FOR...

1 Hunting and field sports
Simon Hart - new Tory MP and former chief executive of the Countryside Alliance

As far as hunting, shooting and other rural activities are concerned the formation of the new government is very positive. We have a DEFRA ministerial team that is extremely supportive of rural issues and for the first time in many years contains people who actually shoot. Likewise at the Home Office Nick Herbert's appointment as policing minister will ensure that the position of legitimate firearms users is robustly defended. We now have ministers who understand the huge conservation benefits provided at no cost to the taxpayer by shooting and other rural activities. Nor does the Conservative Liberal Democrat coalition preclude the repeal of the Hunting Act. The new government will face huge challenges on the economy and many other issues and hunting cannot be at the top of its agenda, but a free vote on repeal is a Conservative manifesto commitment that should be delivered when the time is right.

2 Agriculture
Peter Kendall - president National Farmers Union

The coalition government begins its work at a time of stark economic difficulties. I want to be absolutely clear that the NFU is committed to playing its part in the "hard and difficult work" that the new Prime Minister has talked about. But it is imperative that any cuts that have to be made do not inhibit the ability of farmers and growers to compete. Farmers now want to see action on specific policy issues. For example, decisive steps must be taken to stop the needless waste and distress being caused by bovine TB, and I am encouraged by the commitment both coalition partners have made in the past to pursuing a science-based and comprehensive approach to tackling the disease, including measures to control badgers. Another key priority will be reform of the Common Agricultural Policy (CAP), and it is imperative that food production remains at its heart. Environmental considerations will continue to play an important part of the CAP, but agriculture must not be seen merely as a means to deliver environmental goods. I trust that the coalition parties will put their differences over Europe to one side and negotiate effectively in the interest of British farmers.

3 Renewable energy
Oliver Harwood - CLA chief surveyor and renewables advisor

Both coalition parties damned the outgoing administration for poor performance on the delivery of renewables (the UK lags second from bottom of the European league table with marginally more renewable capacity per head than Malta). The initial coalition agreement contained significant indications of the way the agenda may develop, but it was by no means comprehensive. The parties have so far agreed to implement the full establishment of feed-in tariff systems in electricity, as well as the maintenance of banded ROCs, and measures to promote a huge increase in energy from waste through anaerobic digestion. They also agreed to increase the target for energy from renewable sources, subject to the advice of the Climate Change Committee. From the CLA's perspective, this looks welcome, but, as always, the devil will lie in the detail and we are working hard to bring the question of renewable heat and the previous administration's welcome proposals for an incentive to use wood fuel for heat, which accounts for half our energy use, to the attention of the new team.

4 Institutional landowners
Christopher Bourchier - Director of the rural estate, The Crown Estate

The rural land management priorities of the coalition have now been confirmed, with a strong focus on sustainability - in a broad context. In practical terms, key priorities for landowners include increasing food production, while reducing environmental impacts; ensuring new property developments are energy efficient, carbon efficient and designed with quality of life as a priority; increasing renewable energy output, matching production technologies to appropriate locations. These priorities signal opportunities for rural businesses, subject to achieving commercial competitiveness in a highly volatile global marketplace. The greatest benefits will accrue to those able to work successfully in partnership, whether addressing food production, property development or renewable energy programmes. Clearly, the new coalition government will be working to facilitate progressive change - but the responsibility for achievement rests with us.

5 Birds and wildlife in the countryside
Mark Avery - policy director RSPB

Budget cuts may have bigger impacts on wildlife than on the people who are making them. The likelihood of environmental payments to landowners being reduced alongside the budgets of Natural England and the Environment Agency could easily feed through to falling wildlife numbers. Will there be a sell-off of public land? What future for the Forestry Commission? We live in interesting times.

Farmland birds are still suffering and the success of the Campaign for the Farmed Environment depends on farmers' access to environmentally friendly grants. A White Paper on wildlife is promised - we hope it kick-starts the restoration of UK habitats. Wetlands, heaths and woods store carbon, provide recreational opportunities, alleviate flood risks, clean up polluted water and boost wildlife numbers. Two of the best ministers we have had for wildlife were John Gummer and Michael Meacher - their politics were miles apart but they both did very good jobs for nature. The RSPB looks forward to working with all politicians who care for nature.

THE NEW DEFRA TEAM

Caroline Spelman MP - Secretary of state. Worked in agricultural sector for 15 years.
Jim Paice MP - Minister of state for agriculture and food. Former farm manager and shadow farm minister.
Richard Benyon MP - Parliamentary under-secretary for natural environment and fisheries. Family owns 14,000-acre Englefield Estate.
Lord Henley - Parliamentary under-secretary. Tory peer and landowner.

To read more from our commentators please go to knightfrank.co.uk/rural

6 Rural communities
Ben Stafford - policy director CPRE

The Campaign to Protect Rural England sought to influence the manifestos of all the political parties. As a charity we take no view on whether the election result was a positive one for rural communities. The Conservatives and Liberal Democrats were successful in many rural or largely rural constituencies, but the lack of an outright majority in parliament for any party also means that individual MPs of all parties can be much stronger champions for their communities. CPRE has a range of priorities for the new government, in areas including planning and housing, protecting and improving our countryside and best landscapes, improving public transport in the countryside and tackling litter and fly-tipping. But our first priority in terms of the social issues facing the countryside would be affordable housing. In too many areas people are priced out of the countryside, and communities suffer as a result.

7 Tenant farmers
George Dunn - chief executive Tenant Farmers' Association

The TFA is hopeful that the government's call for a "new politics" will extend to developing a new partnership approach with the farming community based on mutual trust, shared vision and practical delivery. This must include a greater understanding of the tenanted sector in agriculture. Urgent work needs to be done to review the operation of the Agricultural Tenancies Act 1995, which, after 15 years, has failed to provide a stable framework for the let sector. With short lengths of term (typically five years or less) tenants lack the ability to plan for the long term either in relation to their agricultural activities or in relation to their desire to take part in diversification activities and agri-environment schemes.

8 The rural economy
Allan Wilkinson - head of agriculture HSBC Bank plc

We are in new territory and it is too early to make any real conclusions, but the rural agenda seems to be really low on the list of the coalition's early priorities identified so far. UK agriculture has thankfully not felt the ravages of the recession, but it is becoming clear that we will all have to contribute to redressing the UK's large deficit. What of these deficits - will they look at Single Farm Payments? Future fractions of support dependent on individual member government support may be vulnerable.

The only tangible mention from the coalition of something that farmers and land owners can explore is anaerobic digestion - a subject that several businesses are assessing at present.

FARMLAND RULES THE ROOST

English farmland has comfortably outperformed other property and investment asset classes over the past decade, according to the Knight Frank Farmland Index. Andrew Shirley, Knight Frank's head of rural property research, looks at the numbers

Anybody who happened to buy English farmland 10 years ago either made a very shrewd investment or was extremely lucky. While the FTSE 100 index of leading shares has fallen in value by over 20% during that period, agricultural land has almost trebled in value. According to our farmland index it increased by a further 7% in the second quarter of this year, taking total growth for 2010 to 13%.

As the graph opposite clearly shows even the price of the best residential property in central London has not managed to keep up with its less glamorous rural cousin, able merely to double in price.

The farmland market proved more resilient during the credit crunch than other investments and it might have been expected that stock markets, which took a huge beating during the economic downturn, would have outperformed farmland as they bounced back from long-term lows. This, in fact, hasn't proved to be the case and farmland has continued to outperform, while equity markets appear to be suffering another loss of confidence - this time driven by the economic crisis in Greece and other EU countries. Over the past 12 months very few mainstream investments have bettered agricultural land's 20% rise in value.

At the beginning of the last decade, which was when I first started following the farmland market, an acre of decent, but not outstanding, farmland was generally considered to be worth about £2,500/acre. Since then prices have grown steeply and the average price of farmland in England, according to our farmland index, now sits at £5,769/acre. Many sales, of course, realise far more than this and £7,000/acre is not uncommon.

Phenomenal growth

What has driven this phenomenal growth? Unlike the early 1970s when the UK's entry into the Common Market saw the advent of heavily subsidised agriculture (see graph), there is no one factor behind the rise. Put simply though it all comes down to old-fashioned supply and demand. The amount of land for sale has steadily declined while interest from many different sorts of buyer has remained strong.

Ten years ago 226,000 acres of farmland were sold in England alone, according to the then Ministry of Agriculture, Fisheries and Food. Last year, under 150,000 acres were advertised publicly across Great Britain, about 30% fewer than in 2008. So far this year, the amount of land put on the market is down by a further 30%. Since new legislation was introduced in 1995, agricultural tenancies are now far more flexible than they were previously. This makes it much easier for farmers to continue living in their house, while somebody else farms the land.

In the years prior to the credit crunch, the so-called "lifestyle" farmer, flush with his City bonus and looking for a picturesque pad in the country, helped drive up the price of farms. This type of buyer naturally faded away along with the bonuses, but there is no doubt they will be back.

At the peak of the economic boom, farmland also caught the eye of investors entranced by spiralling commodity prices and desperate to jump on any rising market. Many of their purchases were in cheaper overseas markets, but their mere presence and a few strategic purchases in the UK helped to push up prices here.

Most funds in fact bought very little land, quickly realising that farmland is not an especially liquid or readily available commodity to trade in. The recession and lack of finance put many of their plans on hold, but some are now starting to remerge. However, as my colleague Claire Glover highlights elsewhere in this article, it is wealthy private individuals, from both the UK and overseas, who are currently the most active non-farming buyers. While equity and other investment markets remain volatile and interest rates low, farmland offers a tangible, resilient and often tax-friendly home for their money.

It is sometimes said that the farmland market is now entirely divorced from agricultural commodity prices, but this is not true. While there is certainly no direct correlation between land values and, say, wheat prices, and it is difficult to justify paying current values based on the agricultural return alone, farmer confidence still plays a huge role in pushing up prices. When cereal prices rose in 2008 so did land values, along, inevitably, with large machinery purchases. Successful farmers will always continue to expand.

In addition, UK agriculture has a very healthy balance sheet. Its low debt-to-capital ratio meant that banks remained happy to loan even during the credit crunch when most other industries were starved of finance.

Despite its strong price growth, UK farmland still remains cheap compared with some EU countries such as Denmark, Ireland and Holland. This has encouraged many farmers from these nations to buy land in the UK. The relative weakness of sterling against the euro has been an added bonus for anybody who has bought over the past 36 months.

Nobody wants to pay more tax than they possibly have to and the availability of Agricultural Property Relief - thankfully untouched so far by the new government - on all or part of the value of a farmhouse is a continuing motivator for many farm acquisitions.

The Future

The big question now is can farmland prices continue to grow? Investors hoping for rises on the scale of the past 10 years might be disappointed, but judging by the increase we have already seen so far in the first six months of this decade, a doubling of values by 2020 looks very realistic.

All the factors that have driven demand and restricted supply will remain in play and some, such as concerns over food security, may even be accentuated.

Commodity prices remain stagnant at the moment, but most forecasts point to an inevitable recovery as the global demand for food increases and climate change, urban growth and land degradation put more pressure on the remaining resources. If we see another commodities boom, similar to spring 2008 when wheat prices threatened to break through the £200/t barrier, demand for land will surely soar.

As William Worsley, president of the Country Land and Business Association, points out in our interview with him on page 12, new land-based environmental markets may also develop, creating yet another reason to own farmland. If landowners can prove that their farmland is sequestering damaging greenhouse gases, getting paid for that service is not as far fetched as it would have sounded just a few years ago.

Main picture: Lawn Farm, Tisbury, Wiltshire, is for sale at £6m and includes 470 acres of farmland

MARKET FOCUS: FARMS, ESTATES AND EQUESTRIAN PROPERTIES

Farmland
Head of farmland sales
Claire Glover

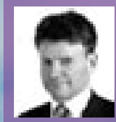
Prior to the credit crunch people with wealth to spare were snapping up pretty residential farms, now bare land is what they seem to be looking for. We are currently seeing huge demand from a wide range of buyers, but in particular from private non-farming individuals, including a significant number of overseas buyers looking for a safe long-term investment. Many see it as a hedge against inflation and more reliable than stocks and shares and other less tangible investments. Recent strong sales have included three sales of land in the Cotswolds that achieved between £8,000 and £10,000/acre. The 1,500-acre Showsley Estate in Northamptonshire, which was a combination of vacant possession and tenanted land, also achieved a strong price. Another interesting test of the market will be 250 acres of Grade 3 arable land suitable for potatoes that we are selling in Northumberland. It will be guided at around £6,000/acre.

claire.glover@knightfrank.com
020 7861 1069

Estates
Head of estate sales
Clive Hopkins

Very few good estates have been up for sale publicly over the past 12 months. Those that have come to the market have subsequently sold very well. Properties up to, and around £10m, are proving especially popular - Enstone Court in Oxfordshire, sold earlier this year, being a good example.
There has been a particular dearth of well-located estates over the £10m mark for sale, which has frustrated buyers. In this sort of undersupplied market a proactive marketing campaign is proving most effective. We achieved a very good result when we decided to sell 1,300-acre Compton Castle in Dorset by public auction - an interested party made a very acceptable offer prior to the sale to avoid having to bid. Two newly launched estate packages that will sell well this summer are 902-acre West Lodge in Dorset, guided at around £12m, and 245-acre Beaurepaire in Hampshire, guided at £8m.

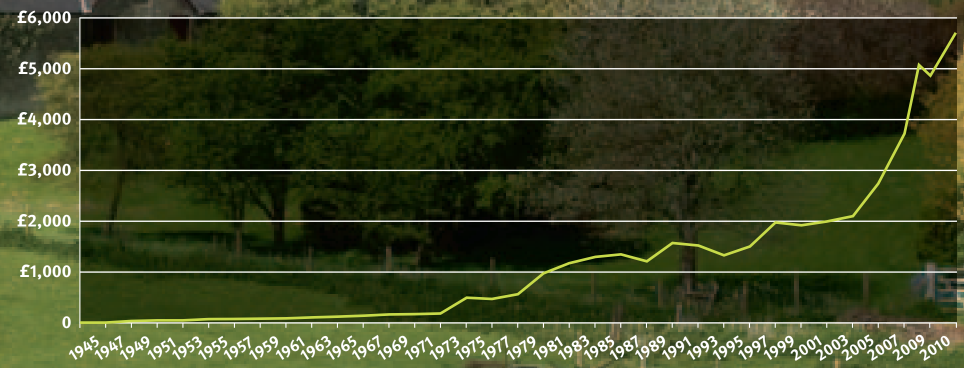
clive.hopkins@knightfrank.com
020 7861 1064



Equestrian
Head of equestrian sales
Robert Fanshawe

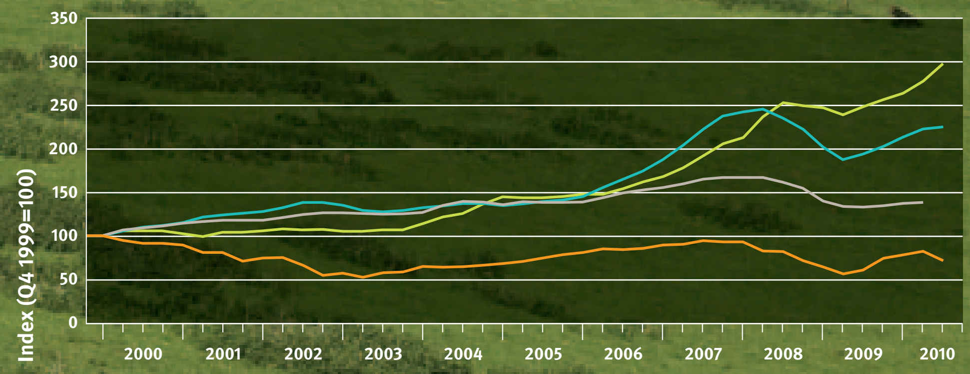
I am currently seeing a lot of interest in properties dedicated to polo or farms with polo facilities. This year we have already sold £15m worth of property, which included 14 polo pitches, three arenas, 190 stables, but only about 15,000 sq ft of residential accommodation. One of the most interesting sales was Lynt Farm at Inglesham, Wiltshire. This 300-acre farm was bought for around the £2.5m guide by two dairy farmers who will use some of the land for feeding their cows. The part of the farm that made it a viable business, however, was 80 acres of polo fields, which the farmers immediately re-let. An incredibly rich Asian businessman with a passion for polo paid around £3.5m for Gadbridge Farm, near Windsor, which was a prestigious 32-acre polo set up. Demand for polo facilities is outstripping supply and there is likely to be strong bidding for 140-acre Saddlewood Manor, Gloucestershire, which includes a polo pitch. The guide is £4.75m.

robert.fanshawe@knightfrank.com
020 7861 1373



Average price of English farmland (£/acre)

Source: Knight Frank Residential Research/DEFRA



Asset performance over the last decade

English farmland
Prime central London houses
Prime country houses
FTSE 100

Source: Knight Frank Residential Research

	12 months	5 years	10 years
Farmland	20%	109%	183%
Prime London houses	16%	61%	104%
Prime country houses	4%	1%	32%
FTSE 100	13%	3%	-22%

For more information on agricultural land values please contact **Andrew Shirley** at andrew.shirley@knightfrank.com or on 020 7861 5040. To read our latest agricultural research or to subscribe to our quarterly Rural Bulletin please visit www.knightfrank.co.uk/rural

MANAGING THE GREEN BELT

Knight Frank is well known for managing traditional country estates, but the firm's expertise is proving increasingly valuable to a far wider range of clients. The Rural Report visits the London Borough of Enfield to find out why

Words: Andrew Shirley
Image: Anthony Ellis

Making a plan - Alastair Paul (right) and Peter Cook discuss future strategies for the London Borough of Enfield's Green Belt estate

> "Our first step was to get to grips with what was on the ground by implementing a full landlord and tenant compliance audit"

Gazing over the London Borough of Enfield's picturesque 3,000-acre farming estate it is easy to forget that we are in the Green Belt, neatly sandwiched between the busy M25 motorway and the sprawl of north London.

The rolling arable and pasture fields interspersed with oak trees and woodland are more reminiscent of the deepest countryside than gritty urban fringe farming. Only the hum of the motorway and the silhouettes of the BT Tower and Canary Wharf on the horizon reveal how close we are to the city.

But as Peter Cook, the manager of the borough's Green Belt portfolio, and Knight Frank's Alastair Paul discuss the estate, it quickly becomes clear that the bucolic landscape belies some serious management challenges.

Running a rural estate is obviously not part of a London borough's usual skill set, so in 2006 Enfield shrewdly decided to look for a specialist external consultant to improve the effectiveness of the management of its Green Belt property assets.

Knight Frank's rural consultancy and management specialisms were just what the council needed. In addition, the firm was already on the Office of Government Commerce's shortlist of approved businesses (those that have satisfied government as to their abilities and ethics) able to offer management services. This meant it was ideally placed to assist at short notice.

"It is a very complex estate, which is why we really needed to work with a firm that had wider experience of the problems we were facing," explains Peter. "On most properties of this size you would expect just three or four farming tenants. We have 12, ranging in size from 60 acres to 600 acres. In total, there are about 70 separate property interests in the portfolio."

Apart from the number of tenants, the type of tenancy agreements in place also makes it difficult to maximise the return from the estate. Unlike many county councils' rural estates, where the farms are let under smallholding tenancies with no right of succession, the farms on the Enfield estate are mainly rented under less flexible traditional Agricultural Holdings Act tenancies.

A key issue that needed to be resolved when Knight Frank took over involved a number of longstanding covenants imposed by some of the estate's previous owners, including the Duchy of Lancaster. These effectively prevented the promotion of new opportunities for agricultural diversification across the holding, making it difficult to realise the true income potential of redundant land and buildings.

"The situation was unusually complicated when we took over the management," admits Alastair. "Our first step was to get to grips with what was on the ground by implementing a full landlord and tenant compliance audit, which scrutinised every property and tenancy agreement. We could then start to introduce a consistent management approach across the portfolio. One of the biggest problems was that there was no clear ownership policy in place, so we worked with Enfield to find out what it really wanted to achieve as a landowner.

"We came up with three clear objectives that involved managing the estate in a fully commercial, but environmentally and socially sensitive manner; protecting and enhancing the Green Belt and facilitating access to it where appropriate by the local community.

"One of our first recommendations was to sort out the issue of the covenants and regularise any breaches. After a complex process this has now been achieved with a final settlement between all parties agreed.

"Many of the long-term issues we encountered when we arrived have been resolved so we can now concentrate on the day-to-day running of the estate, carrying out a programme of much-needed repair work and enhancing its long-term viability," says Alastair. "Enfield as a landowner has moved from being reactive to proactive."

A recent success was to negotiate the surrender of an AHA tenancy on a 560-acre farm, which was owned by The London Borough of Enfield and Hertfordshire County Council, with its tenant who had moved to Canada a number of years ago. "It was a very unusual case and involved two councils, two landlords, three farmers and four sets of agents," points out Alastair." In the end we achieved a very good result, agreeing a favourable rate for the surrender and re-letting the farm for a significantly higher rent under a farm business tenancy. The value of the farm has also increased by up to 50%."

Using an external consultant like Knight Frank to make these kind of changes is easier says Peter. "Acting at arm's length and using experts who have comparable experience from other estates that they manage across the UK enables us to demonstrate best value."

One of the interesting challenges of an estate owned by a borough council, particularly one in the Green Belt, is that local residents understandably take a keen interest in how it should be managed , says Peter. "On the one hand many people want their council tax to be as low as possible, on the other many expect you to look after the Green Belt and provide as much public access as possible.

"Every decision we make is closely scrutinised by the many and varied interested parties." As an agent Alastair agrees: "You do have to be very aware of all the different sensitivities in the borough and work hard to build relationships."

But making the right decisions is what Knight Frank is all about and the Enfield Green Belt portfolio is now quite different from when the firm took over the management four years ago. "I am a passionate believer in bringing in specialists to manage complex estates," says Peter. "What has been achieved here proves that the approach really works when you choose the right partner."

Alastair Paul can be contacted at alastair.paul@knightfrank.com or on 01488 688 548. Alastair is part of Knight Frank's Investment Land Management Team and specialises in managing land as an investment. Knight Frank Rural Consultancy can advise on all aspects of land and estate ownership.

TRANSFORM YOUR ESTATE INCOME WITH RENEWABLE ENERGY

Christopher Smith

Boosting the annual income of your estate or farm by many thousands of pounds and getting paid to use electricity that you have generated yourself seems too good to be true, but that is exactly what is on offer under the new renewable feed-in tariff scheme. Christopher Smith, head of Knight Frank's new Renewables and Energy department, explains the deal on offer to rural landowners

FITs, as the new payments are widely known, are now available to anybody who sets up an eligible renewable energy project on their property. Different renewable energy sources, such as hydro or wind, attract different levels of payments (see examples in table below) and the rates also vary depending on how much power your scheme can supply – generally the smaller the scheme the higher the rate.

In order for your electricity to be metered and to qualify for FITs, your power supply must be connected to the National Grid - being close to an appropriate connection point is therefore beneficial - but there is no compulsion to actually supply any electricity if you can use it all yourself. In fact, this is where the numbers really start to stack up, especially if you are running an energy intensive enterprise such as a dairy herd or food-processing business, because you will also be saving on the cost of buying electricity from your usual supplier - currently around 10p/kWh.

Payback time for the cost of the generating equipment reduces substantially in these circumstances - in some cases to under three years. The benefits are also likely to carry on growing as the future cost of wholesale electricity could rise substantially. Again, the closer the point of consumption to the point of generation the better.

One of the most attractive aspects of FITs is that the rate of payment is index linked and guaranteed for up to 25 years from the date you join the scheme. This sounds an incredibly generous move by the government, but, cleverly, the payments are funded by the electricity generating companies who will ultimately recoup the cost from bill payers.

Because the government has to ensure 40% of the energy produced in the UK is carbon-free before 2020 under the Kyoto agreement, it is keen to see as much renewable energy generated as quickly as possible. The FIT scheme can reward those who sign up early. For example, anybody installing a wind turbine with a generating capacity of under 1.5kW before March 2012 will receive a higher initial tariff than those who join at a later date.

This sliding scale of payments does not apply to anaerobic digestion, hydro and larger wind schemes, which attract the same initial rate until at least March 2021.

FITs are available for electricity generated from wind, water, solar (photovoltaic) and anaerobic digestion. This means that the vast majority of estates or farms will be able to benefit in some way.

FIT tariff rates (p/kWh)* and life (years)

Anaerobic digestion	9.0 - 11.5	20
Hydro	4.5 - 19.9	20
Solar photovoltaic	29.3 - 41.3	25
Wind	4.5 - 34.5	20

* Add 3p/kWh for all electricity supplied to the national grid (large schemes can negotiate a higher supplement)

RENEWABLE PROS AND CONS

Wind
Pros: Short-payback time, easy management
Cons: Needs reliable wind and planning consent, local opposition can be fierce

Solar photovoltaic
Pros: Planning consent generally not needed for rooftop schemes, suitable for properties in environmentally sensitive areas
Cons: Long payback time if not using electricity yourself

Hydro
Pros: Consistent energy production, requires little management
Cons: Very site specific, potentially a long way from usage or connection point

Anaerobic Digestion
Pros: Works well in energy-intensive farming systems that create a lot of waste, by-product can be used as fertiliser
Cons: Requires specialist management for optimum output, large acreage needed for feedstock

Knight Frank Renewables Estate

To highlight the opportunities available we have created a model estate that utilises as much renewable energy as possible (see illustration and table below).

In total, the estate is creating almost £1m of income a year before interest and tax. If the electricity produced was used on the estate this would rise to closer to £1.1m. We have also not included the benefits of the nitrogen-rich by-product and heat from the anaerobic digester. In reality, you would be unlikely to install all of the different technologies as the cost benefits vary widely. There would be no point, for example, installing expensive and less productive photovoltaic panels if you could get planning permission for some wind turbines. And, of course, not every technology is suitable for every property (see our pros and cons table).

Although start up costs can look expensive, the guaranteed (as long as you keep generating) income stream from FITs means banks will look favourably at providing the funding required. There are also capital tax allowances available.

Our estate also generates revenue from leasing land to a wind farm operator for five turbines. The annual rent for each turbine is £15,000. Following the introduction of FITs these schemes may become less popular as the turbines used tend to be much bigger and cause huge amounts of public controversy. FITs are also capped at five megawatts, so larger wind farm schemes will not qualify for the scheme.

Next year new incentives for the production of renewable heat will be introduced and these could be another source of income for our estate, which already uses waste timber from its woodland to generate heat for the main house using a biomass boiler. This saves approximately £10,000 a year in heating costs.

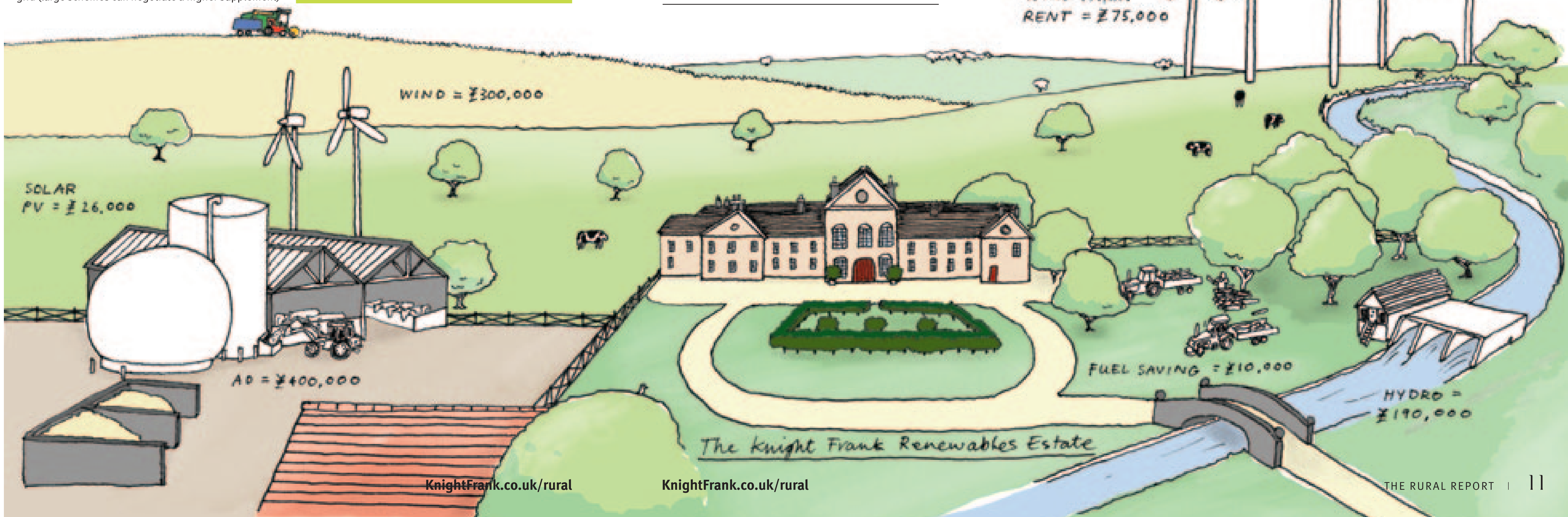
The new coalition government has already been very positive about increasing the amount of energy provided from renewable sources and there really is no reason why every rural property owner shouldn't benefit in some way. And remember, if you're not generating your own electricity you will be subsidising somebody else who is.

Income from FITs on the Knight Frank Renewables Estate

	Scheme details	FIT rate p/kWh	Cost	Annual* income	Lifetime income	Payback time (years)
Wind	Two 250kw** turbines near farm buildings based on wind speed of 7m/s	18.8	£1m	£300,000 (£400,000)	£6m (£8m)	2-4
Solar photovoltaic	900 sq metres (450 panels) on dairy roof	31.4	£405,000	£26,300 (£31,670)	£658,000 (£792,000)	13-15
Hydro	100kw water turbine	17.8	£800,000	£190,000 (£254,000)	£3.8m (£5m)	3-5
Anaerobic digestion	A 350-kw system with 200 cows and 600 acres of maize	11.5	£1.25m	£400,000 (£460,000)	£8m (£9.2m)	3-4
Total income from FITs			**£3.45**	**£916,300 (£1.1m)**	**£18.5m (£23m)**	**4-5**

* Income figures will vary based on local conditions and equipment performance. They do not include tax or the cost of finance. Figures in brackets assume all electricity produced is used on the estate and would normally cost 10p/kWh to buy in (AD schemes assume a lower buy-in rate of 5p/kWh).
** A 250kw turbine produces an equivalent amount of energy to that consumed by 125 three-bed houses for a year.

For full details of feed-in tariffs and an initial site assessment please contact Christopher Smith. Christopher can also advise on all aspects of renewable energy generation including planning and property-related issues such as lease and access agreements. He can be contacted at christopher.smith@knightfrank.com or on 01179 452 630



JUST WILLIAM

The president of the Country Land and Business Association takes a break from his lobbying work and a non-stop tour of Britain to talk to Knight Frank's head of rural consultancy, James Del Mar

JDM - Since taking over as CLA president a year ago you've made a real effort to meet as many members as possible. How much of your time does the role take up?

WW - It's usually four days a week, sometimes five. I don't see much of home as I'm constantly travelling. During my time as president I said I would try and personally meet a third of our 35,000 members and visit every county in England. In six months I've already visited every county bar four - when your term is only two years you need to hit the ground running.

JDM - The CLA gives a lot of advice to members about reducing their carbon footprint - yours must be pretty big?

WW - I actually use public transport most of the time, so hopefully it's not that large.

JDM - Seeing your membership is obviously important, but I imagine the really hard work must take place behind closed doors in Westminster?

WW - Absolutely, and not just in Westminster; we also work very hard in Brussels representing our members' interests in the EU.

JDM - In this day and age does a group representing (frequently wealthy) landowners really have much influence where it matters?

WW - First of all our membership is much broader than that and, yes, I do believe we are an extremely effective lobbying group. One of the CLA's great strengths is its frequent ability to demonstrate that what may be in the interests of its members, is also in the interests of society as a whole.

JDM - Do you think your members appreciate that role?

WW - No, not always and we probably need to communicate it better. The problem is that we can't always crow from the rooftops about what we've achieved because that would not necessarily sit well with the groups that we've successfully influenced.

JDM - Recently you've been striking up what some might consider unusual and controversial partnerships, how has that worked?

WW - You're right. Another of our strengths is our willingness to make alliances with groups who do not, on the face of it, appear to be our natural bedfellows. For example in recent months we have worked closely with both the RSPB and Friends of The Earth, and the position of rural land managers is much better as a result.

JDM - Your work with the RSPB on the future of CAP has, however, received a lot of criticism, particularly from farming unions. Were you surprised by that and do you regret the relationship?

WW - Yes I was, especially as not everybody had read our paper nor come up with their own constructive ideas for reforming CAP. And no, I certainly don't regret working with the RSPB. I think a constructive relationship with a lobbying group that has over one million members compared with a combined CLA and NFU membership of about 90,000 is extremely powerful.

JDM - Not all of your members are happy though.

WW - That is true, I did possibly misunderstand the dislike of many of them for the RSPB. But now I am in a position when I can go to the RSPB and tell it that and why. I was interviewed recently on Radio 4's Farming Today programme with Mark Avery from the RSPB and he said: "I agree with William." That has to be good news.

JDM - What did you make of the result of the General Election?

WW - It is far too early to tell. The previous government got some things right and some things wrong. I anticipate that the new government will do the same. Having said that the members of the new Department for the Environment and Rural Affairs (DEFRA) team are well known to the CLA and they do make a pretty impressive hard hitting team (see p5).

JDM - Are there any particular areas that concern you?

WW - The scale of the budget cuts is clearly going to be the main issue for the next few months.

JDM - How do you see that impacting on the countryside?

WW - When you think of the big things that DEFRA funds: animal health and welfare, flood and coastal defence, agri-environment schemes and waste management, it is hard to see the scope for cutting spending on any of those without severe implications for the rural economy. As soon as the position becomes clearer we will work flat out to make sure the government appreciates the full implications of the options available.

JDM - We have already seen taxes go up. What do you think of the increase in Capital Gains Tax?

WW - It is a profoundly depressing thing to have come out of the coalition. All the academic research shows that a CGT rate of 18.4% is the optimum in terms of tax revenue.

JDM - What do you think the government's first priorities for helping rural communities and agriculture should be?

WW - There are two things it needs to look at as a matter of urgency. The first is the future of the Common Agricultural Policy (CAP). The government needs to realise quite how important that is for farming and the countryside in general. Second, it needs to start work on a comprehensive review of the planning system. It is quite simply not fit for purpose. We need to have a cheap and efficient system that is capable of delivering all sustainable development in the proper sense of the phrase.

WILLIAM WORSLEY: BIOGRAPHY

CLA president **William Worsley** lives at Hovingham Hall in North Yorkshire (www.hovingham.co.uk) where he runs a family business involving farming, forestry, and residential and commercial property. He is also a non-executive director of the Skipton Building Society and The Brunner Investment Trust plc

JDM - So it's not just DEFRA you are trying to influence?

WW - We do a lot of work with the departments for Communities and Local Government (DCLG) and Energy and Climate Change (DECC).

JDM - Is there a lot of joined up thinking going on at Westminster?

WW - DEFRA is, on the whole, pretty good at assessing the potential impact of its policies on rural areas, though it does not always get it right - as the ongoing saga of the RPA shows. But the big problem is that much of the work done by DCLG and DECC can have serious implications for rural businesses. The trouble is they do not always realise it.

JDM - I know many of our clients would like to be seen as part of the solution, not the problem, to the issues affecting the countryside and the UK as whole. Do you think landowners have a big role to play?

WW - Massive if given the chance. They can really help with the provision of affordable housing and the issue of climate change, too. Some of the most important things we deliver as land managers have non-market benefits.

JDM - What do you perceive to be the stumbling block with affordable housing, I know you have a scheme on your own estate in Yorkshire?

WW - Government hasn't really got to grips with the concept of allowing landowners to cross-subsidise affordable housing with open-market development. They also need to be aware that people want to retain some control of what is being built on their land. I naturally want to have the final say in anything that is built on my estate.

JDM - Knight Frank believes renewable energy is a big opportunity for land managers, especially since the introduction of feed-in tariffs (see p10). Is enough being done to support this in the countryside?

WW - Certainly not: we have a long wish list (including the introduction of the proposed Renewable Heat Incentive and better tariffs for farm scale biogas) that we are putting to the new government covering both renewables and energy efficiency. In particular, we want to see the development of a carbon market that can benefit those members who are able to calculate the storage of carbon in their woods and soils. We are also looking at environmental markets, for instance where estates might agree payments for managing land to temporarily store flood water before it reaches a town.

JDM - Finally, at the end of your two years at the helm of the CLA what three things would you like to have achieved?

WW - If a sustainable framework for affordable rural housing has been put in place, if there is a foundation for the UK government to strongly defend our CAP budget and if an acceptable means of delivering broadband to the entire country has been agreed, I will be very happy.

James Del Mar is head of rural consultancy at Knight Frank. He can be contacted at james.del.mar@knightfrank.com or on 01488 688 507

PROTECT YOUR BOTTOM LINE

During the 22 years that I have been working with rural property I have valued billions of pounds worth of magnificent estates and agricultural land. There have often been cases, however, when an estate or farm could have been worth so much more with a little bit of careful thought

I am not talking short-term measures like a lick of paint before a sale, but things that will enhance value for years and even generations to come. Estates and farms have often been in the ownership of the same family for centuries and a sale may never be contemplated. Even so, it makes sense to ensure your balance sheet is as strong as possible because, as the recent General Election has shown, nobody can predict what is around the corner.

When making changes or improvements to your property always think long term as small decisions can have a significant impact on future values. One case that springs to mind is an avenue of trees lining a drive to a house. It would have been a perfect grand approach if only it had been planted a few metres further from the drive. Instead, first impressions were of driving down a rather claustrophobic tunnel. A really strategic thinker would even start to plant a second line of trees in readiness for the eventual decay of the original avenue.

Try to future-proof any improvements. Tastes change over generations and while a glass cube might seem like a cutting-edge extension to a house now, it might appear very dated in the not-too-distant future. Properties do evolve and ongoing development is part of the history of a house, but the key is ensuring development is in keeping.

This doesn't mean you should eschew new technology. Rural properties can be notoriously expensive to run so anything that reduces energy costs will be appreciated in the future. There are currently very generous and long-term incentives to produce your own renewable electricity (see p10 for more details), which next year could be extended to heat. Consider, however, the impact of any schemes such as wind turbines on the overall amenity value of the property.

Don't confuse boosting cash flow with boosting the balance sheet. Converting redundant farm buildings into offices or developing other diversified enterprises may swell the income stream and, if appropriately located, the capital value of the estate or farm, but if schemes are too close to the main house or involve too much noise or public access you may be reducing its desirability and ultimate value.

Sometimes it is not always the things you do that can add value, but the things that you don't.

One of the most obvious ways to increase the value of an estate is to make it bigger, but here don't let the heart rule the head, especially when you are trying to piece back together a once much-larger property to its former glory. "Marriage value" can be created by the joining together of separate properties, but the pertinent question to ask when considering a purchase is whether the sum will be greater than the parts? Too often in my experience the answer is no. Extra houses or off-lying blocks of land can appear to make a property seem more disparate.

Sometimes it may make strategic sense to buy a block of land that doesn't at first glance add to a property's value - either as a barrier to development or to protect a view - but generally if it doesn't feel as if it is adding to the harmony or "sense of togetherness" it isn't adding to the value either.

Tenancy rights can also have a fundamental impact on capital values so it is worth conducting a thorough audit and considering taking action where appropriate. When it comes to residential and agricultural tenancy agreements, the more flexible the better in terms of value, although there are many other factors, including varying rates of tax relief, to consider. Farmland let under traditional Agricultural Holdings Act tenancies could be worth up to 50% less than if owned with vacant possession.

It is also important to ensure long-term tenancy and access rights are not being created inadvertently. This can happen with cottages lived in by farm or forestry workers and where the public has access to land.

I have left the tax bit until last, but it is very important nonetheless. Capital Gains Tax is rising, which could mean a big potential tax bill for many estates in the future. Take expert advice if you think you could be affected.

Finally, plan for the unexpected. It is never too early to start mitigating any inheritance tax liabilities that could really hit the balance sheet. We also never know what mistakes the next generation may make so ensure the value of your grandchildren's inheritance is not at risk from a messy matrimonial or family dispute. After all, it is them, not somebody else, who you want to be enjoying that carefully planned avenue of trees.

Tom Barrow, head of rural valuations at Knight Frank

Tom Barrow can be contacted at tom.barrow@knightfrank.com or on 0117 945 2641. To find out more about the valuation and strategic planning services that we offer 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

Claire Glover

Angus Harley

Clive Hopkins

Michael McCullough

Andrew Shirley

Christopher Smith

Andrew Waller

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.

Agricultural Valuations
Tom Barrow
+44 (0)1179 452 641
tom.barrow@knightfrank.com

Building Consultancy
Andrew Waller
+44 (0)1488 688 512
andrew.waller@knightfrank.com

Country House Consultancy
Angus Harley
+44 (0)1488 688 511
angus.harley@knightfrank.com

Equestrian Property Sales
Robert Fanshawe
+44 (0)20 7861 1373
robert.fanshawe@knightfrank.com

Estate Sales
Clive Hopkins
+44 (0)20 7861 1064
clive.hopkins@knightfrank.com

Farms and Land Sales
Claire Glover
+44 (0)20 7861 1069
claire.glover@knightfrank.com

Mapping and GIS
Michael McCullough
+44 (0)1488 688 508
michael.mccullough@knightfrank.com

Marine Consultancy
Michael Bapty
+44 (0)1179 452 635
michael.bapty@knightfrank.com

Renewable Energy
Christopher Smith
+44 (0)1179 452 630
christopher.smith@knightfrank.com

Rural Consultancy
James Del Mar
+44 (0)1488 688 507
james.del.mar@knightfrank.com

Rural Property Research
Andrew Shirley
+44 (0)20 7861 5040
andrew.shirley@knightfrank.com

Strategic Estate Planning
Sandy Douglas
+44 (0)1488 688 502
sandy.douglas@knightfrank.com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