THE RURAL REPORT

A UNIQUE GUIDE TO THE ISSUES THAT MATTER TO LANDOWNERS

Winter 2014

THE CRITICAL LIST
Threats and opportunities for landowners

FARMLAND VALUES
Our latest research and analysis

VOTE FOR ME!
Politicians try to win your vote

EMPLOYMENT SPECIAL
Top tips for country house and estate owners

WELCOME

CONTENT

04 THE CRITICAL LIST
Threats and opportunities landowners shouldn't ignore

06 FARMLAND MARKET
Research, analysis and property highlights

10 BUILDING CONTROL
The benefits of project management

12 EMPLOYMENT SPECIAL
Top tips for managing staff

14 STRESS TESTING
Preparing your business for the future

16 THE BIG INTERVIEW
Vote for me! The main parties vie for your vote

18 VALUATION MATTERS
Tom Barrow's valuation and tax update

Welcome to the Winter 2014 edition of The Rural Report

With a General Election under six months away and the rise of the UK Independence Party causing consternation on the Tory and Labour backbenches, not to mention the on-going reverberations from the Scottish independence referendum, politics is at an interesting crossroads for rural estates.

For our Big Interview section we thought it would be timely to find out why each of the parties think rural property owners should vote for them come May 7 next year. Turn to page 16 to see how persuasive their arguments are.

The impact of political change on rural property ownership should not be underestimated, but for many farms and estates, the fall in the price of agricultural commodities such as wheat and milk will be the most immediate risk to their businesses.

Risk is a recurring theme throughout the report. As well as our regular "Critical List" on page 4, my guide to stress-testing your business on page 14 provides some pointers on how to identify and manage risk to ensure your estate has a secure future.

Elsewhere in the report, we look at how a good project manager can minimise risks associated with renovating or restoring listed buildings – or any major construction project for that matter – saving you time, money and heartache.

Angus Harley, our Head of Country House Consultancy, offers some staff management tips, including dealing with the perils of social media, to minimise the risk of unwanted staffing and employment issues.

As well as helping the owners of some of the UK's leading landed estates, Knight Frank has a long history of managing marine property. I'm therefore delighted to announce that we have taken on an exciting additional instruction from The Crown Estate to look after its South of England Marine Portfolio. This includes a significant expansion of our Marine Consultancy team.

I hope you enjoy this edition of The Rural Report. Please get in touch if we can help in any way. Our contacts are on the back page or you can use the postage-paid reply card if you prefer.

James Del Mar
Head of Rural Consultancy

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THE RURAL REPORT

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THE CRITICAL LIST

Knight Frank's rural property experts highlight the key threats and opportunities that estate owners should be investigating now

Threat Challenge Opportunity

PLANNING

PD RIGHTS – USE THEM WHILE YOU CAN

In the last issue of The Rural Report we listed the new Permitted Development rights for converting agricultural buildings into houses as a big opportunity. However, local planners have turned down over half of the applications submitted using the prior approval process, which allows them to veto projects on the grounds of traffic, design and a plethora of other issues. Our advice to applicants is to take professional advice and make sure submissions are as robustly presented as a full-planning application. The Labour party has also said it will look hard at the new PD rights if it wins power next May so it may be as well to apply sooner rather than later.

ACTION POINT: Assess whether this is an opportunity for you. If so, act soon and take good advice.

James Carter-Brown
Building Consultancy

COMPULSORY PURCHASE

With billions of pounds of new road-building schemes recently identified by Chancellor George Osborne, not to mention potential new railway lines including the mooted trans-Pennine HS3, the number of landowners likely to be affected by infrastructure projects is set to grow. However, in his Autumn Statement Mr Osborne also announced a review of current compulsory purchase legislation, which is often criticised for being unfair to landowners.

ACTION POINT: Find out if your property will be affected by new infrastructure schemes and take appropriate professional advice.

James Del Mar
Head of Compulsory Purchase

RENEWABLE ENERGY

SOLAR PV CHANGES

The government has made it clear it wants to focus on roof-mounted solar PV schemes by scrapping subsidies under the Renewable Obligations (RO) scheme for ground-mounted schemes over 5MW. It also announced land with solar panels on will no longer qualify for farm subsidies. It has also protected 250kW roof-mounted schemes from future FIT reductions as well as announcing plans to make it easier to move schemes over 50kW to a new location and still be able to claim FIT payments.

ACTION POINT: If you are planning a scheme over 5MW on your land investigate whether it still stacks up. If you have suitable roof-space on your buildings investigate the potential of installing solar PV panels.

Edward Holloway
Renewable Energy Consultant

SCOTTISH LAND AND TENANCY REFORM

The recent referendum no-vote has not diminished the determination of the Scottish government to correct what it perceives as the unfair distribution of rural property. First Minister Nicola Sturgeon has already announced plans to abolish business rate exemptions for shooting and deerstalking estates, and change inheritance laws, as well as giving ministers the power to intervene "where the scale of land ownership or the conduct of a landlord is acting as a barrier to sustainable development". Landowning groups are also upset that tenancy reform may also be included in the government's Land Reform Bill, rather than being addressed separately.

ACTION POINT: If you are a Scottish landowner assess how the changes could affect you.

Ran Morgan
Knight Frank Edinburgh

POLITICS

UK GENERAL ELECTION

The country goes to the polls in May and never in living memory have there been so many potential outcomes. Based on recent by-election results it is not inconceivable that the UK Independence Party, which until recently did not even have an MP in Westminster, could potentially hold the balance of power if we have another coalition government. The outcome of the election could have a significant impact on rural property owners with the possibility of a new Mansion Tax under a Labour government and the opportunity to vote on our membership of Europe under the Tories.

ACTION POINT: Read our Election Special on page 16 to see who you think deserves your vote.

TAXATION

STAMP DUTY

Stamp Duty Land Tax (SDLT) on residential property sales has been reformed across the UK. The old "slab-structure" system, where paying an extra pound for a house could result in thousands of pounds of extra tax, has been replaced by a progressive system, akin to Income Tax. This is beneficial for the majority of buyers, but the new rates for higher-value property deals are punitive.

ACTION POINT: If you are selling a house that includes non-residential assets, try to ensure the sale is classified as mixed use, which will attract a much lower rate of SDLT.

NON-RESIDENT TAX

The introduction of Capital Gains Tax on the disposal of UK property by non-residents means the tax benefits of an off-shore domicile are dwindling rapidly. The annual charge for foreigners who have been living in the UK long-term and do not want to pay tax here on their overseas earnings has just been increased, as has the Annual Tax on Enveloped Dwellings (ATED), which could apply to many properties owned by non-residents.

ACTION POINT: If you are a non-resident with property assets in the UK take professional advice to ensure the most appropriate ownership structures are in place.

For more information on the latest tax issues please see my more detailed update on page 18.

Tom Barrow
Head of Country Valuations

EMPLOYMENT ISSUES

PENSIONS

The deadline for even the smallest of businesses having to implement auto-enrolment pension schemes for their employees is getting extremely close for those who have not started to prepare.

HOLIDAY PAY AND OVERTIME

A recent court ruling means that payments for regular non-voluntary overtime may now have to be taken into account when calculating an employee's holiday pay.

FLEXIBLE WORKING

As of June 2014, all staff have the right to ask for flexible working arrangements. These requests do not have to granted, but the employer does need to offer a good reason for any refusals

ACTION POINT: Ensure you are aware of all the recent updates to employment law and take appropriate advice if needed.

Angus Harley
Head of Country House Consultancy

AGRICULTURE

CAP REFORM

If you are reading this in January, the Single Payment will be dead and replaced by the new Basic Payment. DEFRA has released most of the CAP reform details relevant to English farmers, but there are still a few areas yet to be finalised including some of the detail relating to the new Environmental Focus Areas. The next challenge will be claiming the new payments. All claims will have to be done online using a new system.

ACTION POINT: Find out how CAP reform affects your business if you haven't already done so and register for the new Basic Payment as soon as possible in case of any computer glitches.

NEW ENVIRONMENTAL SCHEME

DEFRA has just announced that the Entry Level (ELS) and Higher Level (HLS) agri-environmental schemes will be replaced by a new Countryside Stewardship Scheme that will open for applications in July 2015. The new scheme will be more targeted than ELS and DEFRA estimates that by 2020 it will cover 35 to 40% of farmland, compared with the 70% under ELS and HLS. This means many farmers coming out of their existing schemes may not qualify. Critics have branded the new arrangements a "lost opportunity".

ACTION POINT: Work out how the tougher criteria will affect your environmental stewardship activities and what you will need to do to qualify for Countryside Stewardship if it makes financial sense.

Paddy Hoare
Estate Management, Cotswolds

PRICE VOLATILITY

Agricultural commodity prices across all sectors have been under serious pressure during 2014. The average spot price of feed wheat slipped below £100/t at one point during September – the lowest since July 2010. Prices have rallied somewhat since then, but are still significantly below those available 12 months ago. Milk prices, meanwhile, are now below the costs of production for many dairy farmers. The only saving grace is that some input costs such as fuel are also falling.

ACTION POINT: Assess how vulnerable your estate or business is to large price swings. See my stress-testing article on page 14 for more information.

James Del Mar
Head of Rural Consultancy

To find out more about the topics highlighted on these pages or any other rural property ownership issues, please do get in touch. The contact details for Knight Frank's rural property teams are at the back of the report. For more regular updates you can follow Knight Frank's rural blog at **www.knightfrankblog.com/ruralbulletin**

UK LAND VALUES STILL RISING

Knight Frank's rural property experts round up the farms and estates markets around the UK

LAND VALUES

ANDREW SHIRLEY
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The average value of farmland in England has increased by 12% so far this year, according to the latest results from the Knight Frank Farmland Index. Bare land with no buildings or dwellings attached was worth £7,689/acre, or exactly £19,000/ha, at the end of September.

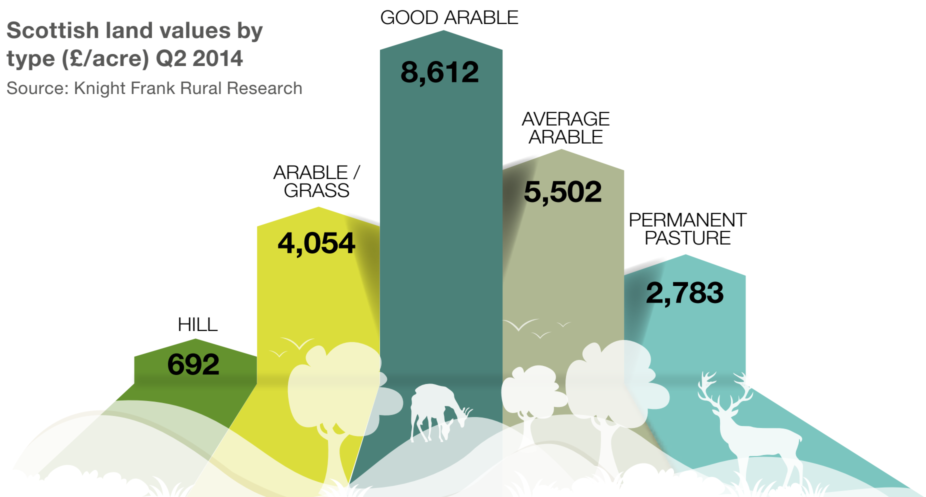
However, regional variations have never been greater. Prices achieved can vary by as much as £10,000/acre.

Over the past five years farmland has risen by 55% in value and during the past 10 years by 187%. This is a far stronger performance than many other more conventional asset classes, such as equities and even luxury London homes (see chart), and helps to explain the growing interest from investors.

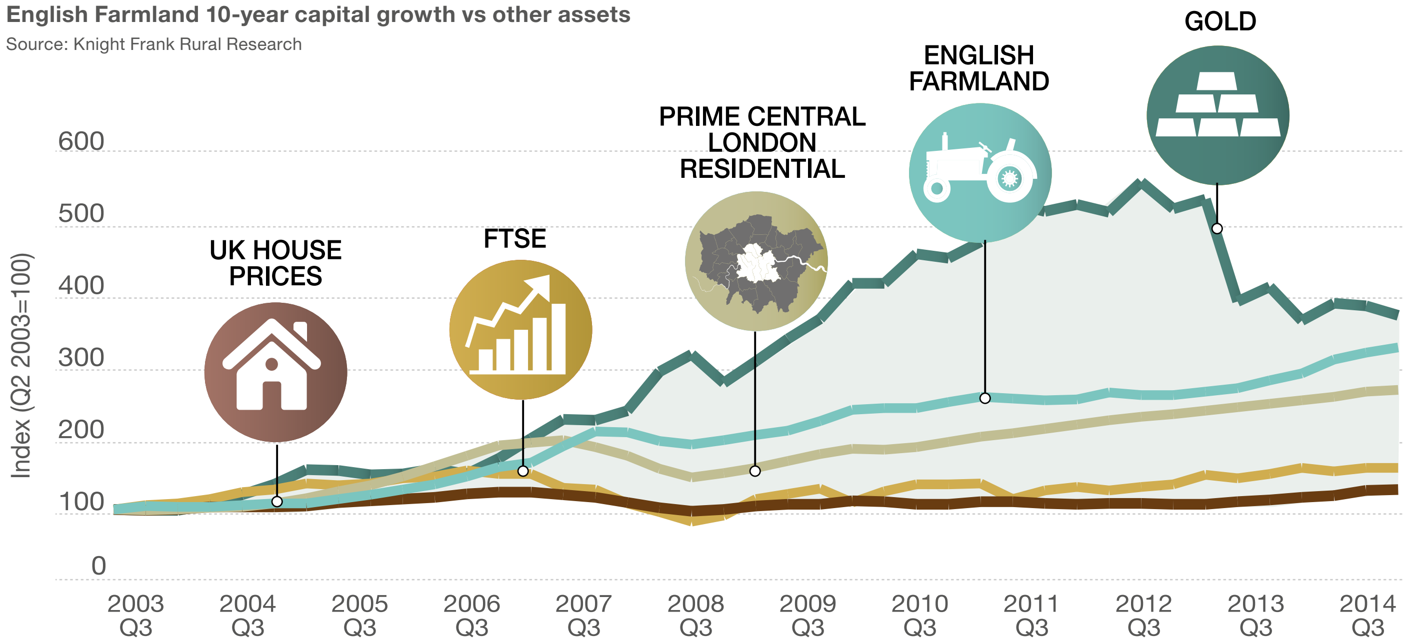
Despite weakening markets for agricultural commodities, demand from farmers also remains firm. Coupled with the limited availability of farmland for sale, this suggests prices will continue to rise.

Values in Scotland are also gaining ground, according to Knight Frank's Scottish Farmland Index. Over the 12 months to the end of June, average prices for all types of land rose 8% to £4,329/acre. Good arable land is worth £8,612/acre (see chart). Over the past 10 years prices have climbed by 223%.

Scottish land values by type (£/acre) Q2 2014
Source: Knight Frank Rural Research



English Farmland 10-year capital growth vs other assets
Source: Knight Frank Rural Research



INVESTMENTS

TOM RAYNHAM
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There is growing confidence in the investor market as all sectors have improved and if anything the lack of quality stock for commercial, residential and land is the restricting factor. Land and specifically farmland, has been the strongest continual investment class during and since the crash of 2008.

Many people thought that when other sectors such as commercial property and the stockmarket recovered then the land market would suffer, but 2014 shows that this is not the case.

> "Farmland is a safe, low risk asset in comparison to other sectors."

Farmland is still seen as a strong investment to hold within a portfolio and the continued acquisitions by institutions and pension funds is testament to the fact.

Land is a safe, low-risk asset in comparison to other sectors, and although the income yield is not that exciting it does provide stability to more risky portfolios, a tax-efficient source to shelter wealth and an astute investment for the future.

Agri Investments are not simply to do with traditional farming, but involve many offshoots from just the ownership of land: livestock, renewable energy, forestry, leisure, tourism to name but a few.

With increases in land value set to continue and rising demand for land from foreign as well as home-grown investors, the future for agricultural investment remains strong.

TYPICAL UK FARMLAND VALUES £/ACRE

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ESTATES

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THE CHYKNELL ESTATE, SHROPSHIRE
200 acres / Guide price £7.5m

Knight Frank has achieved very strong prices for the estates it has sold in 2014, including the 1,324-acre Shakenhurst Estate on the Worcestershire/ Shropshire border.

However, most of the deals have been done privately – 61% according to our latest figures. This has led some potential buyers and vendors to assume that the market is less active than it really is. Seeing others actively bidding for properties and reading about big deals being done is what gives people the confidence to bid themselves.

It would be fair to say though that the market for estates hasn't heated up to the same extent as the farmland market, which is really hot at the moment. For the first time in my career we are actually seeing agricultural land being stripped out of estate sales, and sold separately for premium prices. In the past the marriage value between land and house was what created the premium.

The uncertainty caused by impending General Elections, especially where there is the potential for a change of government, always put a slight lid on high-value property markets, and estates and country houses are no exception. The talk of new property taxes such as the Mansion Tax is only exacerbating the situation.

FARMS

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RUMMERS FARM, CAMBRIDGESHIRE
560 acres / Guide price £7m

The number of private off-market sales has been rising this year. Neighbouring farmers are selling to each other or agents are introducing investors and adjoining landowners. This is often because the seller wants to keep the transaction as confidential as possible.

Some of the prices paid in the private market – well north of £10,000/acre – can be looked at as being very strong. However, I have come across several deals – especially in the Cotswolds, Worcestershire, Herefordshire and Shropshire – where the values achieved were actually relatively low and I think that the seller missed out. There is always an element of retiring farmers allowing a young neighbour to have a good deal on land hence the lower price, but, on the whole, these appear to be commercial transactions.

Despite concerns over the political landscape next year, continued pressure on commodity values and concerns over changes to capital taxation, we believe that there is going to be a very strong market for agricultural land in 2015.

Now that the property market has picked up, landowners and farmers who had option agreements or other deals with residential or commercial developers are seeing deals being completed. This, along with compensation claims for large infrastructure projects such as HS2, is only increasing the number of buyers in the market looking to take advantage of roll-over relief.

IRISH MARKETS

RONAYNE O'MAHONY
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Irish farmland values remain some way below their pre-credit crunch peaks, but are rising again as the economy recovers. There is strong international interest for good estates and we have been working with buyers from China, the Middle East and the Americas.

Average values for grassland have increased by 3% to €10,750/acre this year. Dublin topped the price table at €13,500/acre, followed by the south west at €11,700/acre and the mid-east at €11,600/acre. The range was quite broad with over €15,000/acre being paid for grassland in some counties to as low as €5,000/acre along parts of the border.

Prime arable land values have increased by around 3% across the country, from €11,250/acre to €11,600/acre. The south west had the highest increase at 7%, followed by the mid-west at almost 5%, mid-east at 4.2% and the midlands at 4%. Arable land around Dublin remained stable and the most expensive county to buy tillage land at €18,000/acre.

It is worth noting that large-scale commercial farming opportunities in Ireland are rare. Arguably, the most revenue-generating agricultural asset is a stud farm. Combining the breeding of world-class thoroughbreds with livestock, such as a pedigree herd of cattle and a substantial number of sheep to facilitate oxygen supply to the soil, is where we see our clients generating the most revenue per acre.

SCOTTISH MARKETS

RAN MORGAN
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THE ACHNACROISH ESTATE, ISLE OF MULL
7,035 acres / Guide price £1.95m

Although the prospect of independence no longer hangs over the Scottish estates market, the spectre of land reform still casts a long shadow. Until we know which of the Land Reform Review Group's 60 or so recommendations will be adopted by the government here before the elections in 2016, it is hard to see the market really gaining much momentum.

Best-in-class estates will still command interest because of their rarity and the unique allure of the Scottish countryside that no politician can destroy. But even then the deals are being done privately – we are currently selling a very large estate off-market. Smaller estates that are less likely to be affected by land reform, such as the 7,035-acre Achnacroish Estate (pictured) on the Isle of Mull, are also attracting potential buyers from the UK and abroad.

The market for farms, however, generally remains much more positive. Good arable land in particular is selling for strong prices as demand continues to outstrip supply. One recent sale saw a cautious guide price for non-prime land exceeded by several million pounds. Much of the interest is coming from farmers looking to expand, but investors are also in the market.

To reflect this confidence we plan to expand our farm sales team in the New Year.

THE BEST OF THE REST

A selection of other properties for sale or recently sold

Mill Farm, Mollington, Oxfordshire
A block of well-maintained and productive arable farmland and buildings
Acreage: 483
Guide price: £5.25m
Status: Sold

Lands of Sparsholt, Wantage, Oxfordshire
764 acres of arable land and 91 acres of woodland
Acreage: 855
Guide price: £8m
Status: Sold

Pinkhill Farm, Witney, Oxfordshire
An extensive residential farm located in a very private setting
Acreage: 314
Guide price: £4.5m
Status: Available

Kingstone Lisle Park, Wantage, Oxfordshire
A stunning Grade II Listed Georgian house at the heart of a magical estate
Acreage: 292
Guide price: £22m
Status: Available

RESTORATION MAN

When it comes to improving and renovating historic buildings a good project manager is an investment that can save time and money

Words: Andrew Shirley **Main image:** Jonathan Page

Main picture: Communication is vital – James Carter-Brown (right) discusses future plans with building contractor Tim Moulding. Secondary pictures: The final results of another collaboration between James Carter-Brown and Tim Moulding, including a typically complex heating installation.

So, you've bought your dream renovation project, you've found a good builder, nothing could go wrong, right?

Well, actually, there is an awful lot that could go awry, especially if the house in question is a period property or even listed. Costs could escalate out of control while quality slides and deadlines fall by the wayside.

James Carter-Brown, Knight Frank's Head of Residential Building Consultancy who has been helping clients with their building projects for the past 15 years, knows from experience the pitfalls of not keeping things under control.

"I have been called in to clear up the mess on many occasions, even to the extent of appearing as an expert witness in a court case where a project had really gone sour. The sad thing is that it is all so preventable," says James.

The key to keeping things on track is simple, he explains. "It's all about mitigating risk with good project management. To be fair, most people do get that, but what they don't always comprehend is the expertise and time required. Consequently, they often decide they can play the role of project manager themselves."

Cost is also an issue, he points out. "Building works and materials can be very expensive, so not using a professional project manager is an easy saving to make, even if in the long-run it actually costs you money, time and heartache."

Project blueprint

A project manager can save money and reduce your risk at every step of a scheme and it makes sense to involve them as early as possible. "Renovating or improving a property is really exciting and it can be very tempting to rush headlong into things, without sufficient planning," says James.

"I will sit down with my clients listen to their ideas and find out exactly what it is they want to achieve and how much it is likely to cost."

> "It's all about mitigating risk with good project management."

Often this will require some compromises, but it can also save money because a good project manager will recommend cheaper options that still provide the quality required.

"A large kitchen from a high-end brand, for example, could easily cost £80,000 to £100,000, but I know that I could get something bespoke and of an equal standard made for far less," points out James. And the same goes for bathrooms, he says.

Based on these discussions James will start to put together what is known as a Pricing Document.

This is a universally recognised document that covers every aspect of the project, from the boring-but-vital, such as insurance, site access and working hours, to the fine detail like paint finishes and mortar mixes, to the extremely glamorous, "I've just been discussing the precise location of the heli-pad for one project."

All the technical specifications for electrical and mechanical works, which can be incredibly complicated, will also be included. For a large project, this "bible" could include hundreds or even thousands of drawings.

This level of advanced planning is a crucial part of controlling costs. Making changes or adding in things you've forgotten is always more expensive once you've employed a main contractor because you are generally not in a strong position to negotiate.

Value for money

Only once the pricing document is complete will the work go out to tender. The project manager will already have selected around four companies based on their track record. As well as value for money, reliability and quality of workmanship, this will include checking they are financially stable, have the right insurance and are right for your property.

"A good project manager will have established a robust supply chain over the years, and I think ours is pretty special," says James. "It gives our clients comfort to know that they have chosen a contractor who can deliver what they want."

Once the main contractor has been selected, the Pricing Document will form part of their contract. This means they will understand exactly what is expected. "Everything will be detailed in a clear and concise way with no room for interpretation by the contractor."

Another way James helps his clients to save money is to make sure they only pay for services they need. "Recently I managed to knock hundreds of thousands of pounds off an interior designer's quote because a lot of what they were proposing wasn't really necessary or had already been done by the architect. An experienced project manager will soon spot that kind of thing."

Awkward conversations

Apart from mitigating risk and controlling costs, the project manager will also alleviate the need for awkward conversations with the main and any subcontractors during the project. "Quite often people feel uncomfortable telling a craftsman that what they've done isn't quite good enough. It is so much easier for somebody else to step into the breach," says James.

A more formal quality control process will also be written into any contract overseen by a project manager. Every time – usually monthly – the contractor submits their estimate for the value of work undertaken so far, the project manager will not only check this, but will also withhold a 5% retention until the project is complete.

Half of this deduction will be paid on practical completion of the project, subject to snagging and any defects being remedied. The other half will be retained for a further 12 months, known as the defect liability period, in case any other problems emerge.

"It's not particularly popular with contractors, but it is accepted. However, it's not the kind of thing that an individual running their own project would necessarily include in the contract. It's all about risk mitigation."

A project manager's role, however, is not to be confrontational or to make the contractor's life difficult. Often it can actually make their life easier because they know exactly what they are supposed to be doing.

"It's all about collaboration," agrees Tim Moulding, director of family firm R Moulding & Co, which has just finished renovating a large house (pictured bottom left) for a client of James. "I like the clarity of information we get and the ability to solve any problems that may arise together with somebody who can manage client expectations."

For more information on Knight Frank's Residential Building Consultancy team, which works with both rural and urban properties, please contact **james.carter-brown@knightfrank.com** +44 1488 688523

HOW A PROJECT MANAGER SAVES MONEY

- More efficient procurement
- Reduces duplication
- Avoids expensive changes
- Anticipates the unexpected
- Controls defects process
- An impartial helping hand at all times

Changing times – modern country houses may have fewer staff, but extra legislation means taking professional management advice can make for a happier home , says Angus Harley

YOU CAN GET THE STAFF

After death, debt and divorce, staffing problems are one of the main reasons behind the sale of country houses. Knight Frank's Angus Harley highlights ways to ensure your house is a blessing not a burden

Image: Jonathan Page

The UK's traditional country houses were designed to be run by a small army of staff. Employing that number of people today would not only spell financial ruin for most owners, but would involve massive amounts of administration to satisfy modern employment legislation.

Even managing today's slimmed-down workforces can be a burden without expert help or advice. As a consequence, during the 15 or so years I have been helping my country house-owning clients to enjoy their homes, many of their requests have revolved around staffing issues.

Although using a professional manager may seem like an extra expense, staffing issues – especially if they ever reach the courts – can be extremely costly, in terms of time and personal angst as well as money.

If professional help is not an option, the following are my top tips for country house owners.

Recruitment

Never rely on just written references. Good applicants will always have willing and reachable professional referees – I have very seldom found this not to be the case. Security checks are also essential.

I arrange CRB, CCJ, ID and DVLA checks as a minimum. I have discovered housekeeper applicants with previous for ABH and in-post butlers who have done time for burglary.

…and retention

Once you have found a reliable member of staff you want to hang on to them as replacing them will not be easy. Those who have owned country houses for many years know how vital it is to retain good staff and will fight to do so at all (or most) costs. This means there is actually a very small pool of really good staff looking for work at any one time. Avoid becoming notorious for having regular vacancies – word does get around and coaxing new employees to join you will get harder each time.

You should regularly benchmark salaries and benefits against other similar competing employers and also make sure staff are properly incentivised in non-financial ways. It is often the simple things that make people feel valued, such as a gift at Christmas or some extra compassionate leave when they have to cope with a family issue, such as a sick child.

Manage workload fairly

One of the most common private grievances of staff is the intensity of workload and long hours when their employers are in residence. Conversely, the most common moan by employers is that their staff aren't able to take the busier periods with the quiet ones and are also always on leave or on holiday. Take a step back and think about it. There is a middle ground. The best employers I encounter are those who understand what it takes in terms of time to achieve a specific task.

Appraise staff properly

It is vital to regularly appraise the performance of your staff using a formal procedure. To be most effective, staff should be fully involved in the procedure and sign-off and comment on each appraisal. This is particularly important when dealing with those who are doing very well and those who are not. On the one hand, it will help you to recognise and reward those who are actually over-achieving (without being accused of favouritism), while, on the other, it will help you identify areas of weakness that need to be worked upon. If the worst comes to the worst and you do have to dismiss somebody it will make it easier to argue your case to the individual or tribunal.

Keep on top of legislation to avoid litigation

Many of my clients are from overseas where employment legislation is different to the UK's and often affords workers less protection. Ignorance, however, is no defence in the eyes of the law, so it is vital to keep abreast of any new rules to avoid being sued by disgruntled employees. From my experience people are becoming increasingly well-informed about their rights and litigious, especially if they have a high-profile employer.

One recent change, for example, is that holiday pay will have to take into account overtime rather than just a person's basic wage. One to bear in mind if your staff work a lot of overtime. Maternity and paternity benefits have also changed recently, as well as compulsory retirement and pensions legislation. Staff now also have the right to request flexible working. You don't have to grant any requests, but you do need a reason if you say no.

Make sure staff contracts are social media proof

Whether you have embraced social media or don't know your Twitter from your Facebook, the chances are that some of your staff will be huge fans. It is surprising what some people share on social media – I was recently involved in a situation where a staff member was updating his Facebook status during a disciplinary procedure – so consider including a social media protocol in staff contracts. Domestic staff in particular may have access to very personal aspects of your life, things that you probably don't want shared with the entire world.

Angus is head of Knight Frank's Country House Consultancy department. For more information on staffing and other country house matters please contact **angus.harley@knightfrank.com** +44 1488 688511

The listener – finding out what your clients really want is vital before stress testing an estate, says James Del Mar

STRESS TESTING

In a world where commodity prices rise and fall like a rollercoaster and the UK's political landscape is in a state of flux, how prepared are you as an estate owner, beneficiary, trustee or advisor for the future, asks James Del Mar

In my experience many, if not most, rural estates don't really have an up-to-date plan to steer them safely into the future.

Worryingly, they are all too often relying on strategies developed by previous generations and historic returns that could be unrealistic in today's economic climate.

Without wishing to be alarmist, risk and volatility are all around us and both get greater and more unpredictable. Estates need to be better prepared for both the expected and the unexpected.

Risk comes in many different guises. Some are obvious, like fluctuating agricultural commodity prices or climate, but others may not even be recognised as such, although by their very nature are inevitable.

Death, marriage, birth and, sadly all too often, divorce are part and parcel of life, and estates need to plan for them to ensure that they can cope with whatever unforeseen implications may arise, especially for any "matches, hatches or dispatches" that come out of the blue and bring with them succession issues.

In an increasingly litigious society there is also a growing need for estate trustees to demonstrate that they have taken adequate steps to fully discharge their duties and to be able to prove that they have done so.

Protection

So, how should an estate protect itself from future events?

I like to describe the process as stress testing because it involves constructing models to work out where the weak points might be under various different scenarios. A simple analogy would be a water main; at first glance under normal conditions it might be fine, but could it cope with anything more and what cracks lie under the surface?

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Unfortunately, there is no simple list of checkboxes to run through when following this procedure, everything is pretty much bespoke. Of all the estates I have been involved with, and there must have been several hundred over the years, no two have been the same. Every property will have its own nuances and every family will have different aspirations and issues lying beneath the surface.

Broadly, however, the stress-testing process has three stages. Firstly, all of the factors that could have a material impact on the future of an estate need to be identified. Secondly, the quantum of risk that is associated with each factor needs to be assessed. Finally, actions to mitigate that risk, based on its likelihood and potential impact, need to be put in place.

However, it is important to bear in mind that the process doesn't take place in isolation. It is vital to set it within the context of what the estate owner and their family want to achieve in the future.

Often, just posing this question and answering it honestly can be a revelation in itself for families. I once dealt with an estate where all the planning was based around splitting the estate equitably between three siblings because that seemed to be the fairest thing to do.

However, after some discussion, it turned out that deep down what was really wanted was for the youngest child to take over the estate. That made quite a difference to the succession planning process.

Identifying risk

Risk can be divided into various categories based on exposure and probability. For many traditional estates income derived from farming activities, whether in-hand or tenanted, will still be an important, albeit probably reducing, part of their income stream.

There are so many factors affecting agricultural profitability that it can be tempting to say there is no point in trying to mitigate risk when you can't control things like the weather and global commodity prices. But in reality there is an awful lot you can do.

To begin with, you need to find out how exposed you are. If an estate derives more than 50% of its income from farming I would say that is too great an exposure. The graph on the next page shows just how volatile commodity prices can be and, worryingly, how little they have really increased over the past 25 years.

Even when you can't control something like climate, it is still important to know how it could affect your bottom line.

On a model 600-hectare arable unit the difference in the business surplus generated could be as much as £147,000 (from £102,000 profit to a £45,000 loss) a year depending on the weather, according to a new study from The Andersons Centre and ADAS.

Although in-hand agricultural operations will clearly be affected more significantly in the short term, rental values will reflect profitability further down the line.

Sensible diversification, often using other property assets, is one of the most common ways to reduce an estate's reliance on agriculture and improve annual returns. Again, however, it is important not to be over-exposed to one sector. Commercial rent rolls are vulnerable to economic downturns and residential portfolios can be subject to expensive changes in legislation, such as energy-efficiency standards. Witness also the government's reducing commitment to renewable energy subsidies.

Of course, for tax reasons it is also important to maintain an estate's trading status and not be seen as a property investment business in the taxman's eyes.

In addition, estate owners need to be comfortable with any diversified businesses and recruit the right managers – the skill sets required will often be different to traditional estate management.

Tax, "glorious" tax

Many of the potential risk mitigation measures for rural estates revolve around tax planning. The sharp increase in land values (also highlighted on the graph) and the commensurate rise in tax liabilities has made this even more pertinent.

While accountants can clearly only work within existing legislation, recent changes to tax law have highlighted the dangers of relying too heavily on specific ownership and debt structures to minimise those liabilities.

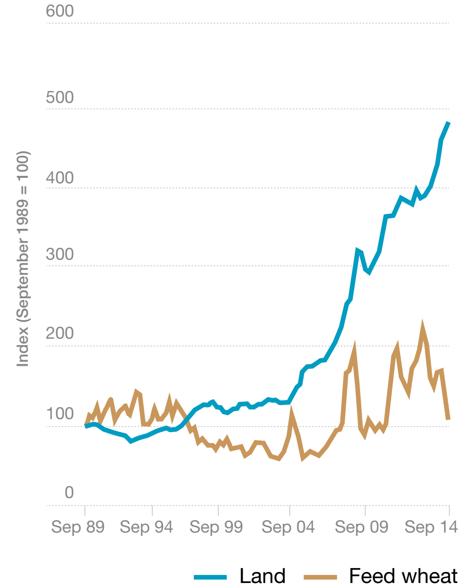
With "wealth" increasingly in the sights of politicians – the Mansion Tax being a prime example – and a more left-leaning government potentially on the cards after next year's General Election, a plan B is always a good idea.

Of course, the stress-testing process is not something you do once and forget about. Estates and the environments they operate in are constantly changing so risk mitigation measures need to be re-assessed on a regular basis to ensure they are still appropriate and practical.

I suspect that many estates don't plan properly because they are scared of what the implications might be. But stress-testing is not necessarily about making wholesale changes, in fact you may need to do nothing at all. But at least you will have identified future risks and be more prepared to face them.

Indexed 25-year price change of farmland and feed wheat

Source: Knight Frank Rural Research



Knight Frank offers strategic advice and stress-testing services to estates across the UK. For an initial consultation please contact **james.del.mar@knightfrank.com** +44 1488 688507

WE WANT YOUR VOTE

With the General Election looming The Rural Report asks four of the main parties why rural property owners should vote for them

Illustration: Liam O'Farrell

THE CONSERVATIVES

This Conservative-led government has made promoting rural growth and removing the barriers to the success of our farming industry its central objective. We do not see farming as an old, declining industry we could possibly do without as I believe the last government did.

In fact, food and farming is a vital, dynamic industry, which contributes £100bn to the economy and employs one in eight people. It's our largest manufacturing sector – bigger than cars and aerospace combined. The UK has always led the world in agricultural technology and we are determined to restore the status of farming in this country.

Since 2010, we have removed hundreds of regulations, we are slashing the volume of Defra guidance by 80%, have expanded earned recognition so that those farmers with a track record of good management receive fewer inspections, and we have made funds available to support farm businesses seeking to diversify to add value to their produce or to improve their competitiveness.

We have also championed our top-quality produce around the world, working hard to open up more than 600 new markets in over 100 countries, including pork to China and beef to the USA. The value of our food and drink exports has increased by £1.2bn in the last four years.

A future Conservative government would seek to build on what has been achieved. As the world economy grows there will be growing demand for the food we produce. We need to produce more food sustainably and that will require the next leap forward in technology. That is why we will continue to develop new agricultural technologies through our agri-tech fund. We will also seek to further reduce the burden of regulation and inspections and to do more to promote agriculture as a career choice so that we have new entrants and new enterprises to bring vibrancy and innovation to the countryside.

George Eustice MP
Parliamentary Under Secretary of State for Farming, Food and the Marine Environment

LABOUR

Labour has always recognised the importance of land-owners to a sustainable countryside and rural economy. But – like the countryside – the policy and political context changes, so a future Labour government will work with landowners and other rural stakeholders to meet new and pressing challenges.

These challenges include the need to reverse the stagnation in food productivity, whilst at the same time reversing the losses in habitat and biodiversity. Doing both will require a renewed and determined focus on innovation in agriculture and horticulture, and the same relentless focus on the environment. There will be no trade-off between food security and the natural world under Labour. Both are critical to our future wellbeing.

We also need to ensure that all who are involved in the land share in the wealth created, so as we see economic growth the proceeds are distributed fairly. That means landowners playing their part in progressively lifting the low wages and earnings which can be characteristic of certain sectors of the rural economy. But it also means investment in skills and training, so that young people see land-based work and careers as an attractive option.

In times of austerity (especially) we have to make public spending go further, delivering more for each taxpayer pound invested in landownership. Landowners have a crucial role to play in soil and water quality improvements, waste management, carbon-reduction, energy generation, water-catchment management and flood alleviation, improvements to access to the countryside, and so much more. Financial signals need to be accurately aligned to reward contribution towards these public goods, as well as, for example, food production.

These are only some of the key policy themes that Labour will pursue, and we will do so working with landowners and land managers. But there is also a wider rural agenda, which is equally important to the viability of rural communities, and to tackling rural inequality.

Greater local and regional collaboration – together with further devolution of powers and decision-making – will be key to empowering rural communities to set their own priorities on economic and community regeneration, jobs and growth, affordable housing and transport, tackling social and financial exclusion, and much more.

Labour will work with you, to make a countryside that works for everyone, not the few.

Huw Irranca-Davies MP
Shadow Food & Farming Minister

THE LIBERAL DEMOCRATS

Elected Liberal Democrats represent many rural areas and especially the uplands. We are optimistic about the future for people living and working in the countryside, but realise that investment time scales can and must be over longer periods of time.

The UK received a relatively generous allocation of Pillar I in the latest CAP reform, but disastrously low Pillar II funding. This was because historic considerations were taken into account even though the settlement was meant to be based on current criteria.

This meant there was great pressure to maximise the movement of funds from Pillar I to Pillar II to meet the expectations of conservation bodies to roll out environmental schemes and support improving the competitiveness of farming and rural businesses.

As a result, direct payments, in particular to hill farmers, have been reduced. Those farming upland areas are particularly vulnerable to commodity price volatility both on the input and output sides. Liberal Democrats in the short term will look to find ways through the Rural Development Programme and other funding streams to support hill farmers. In the longer term we will ensure a better Pillar II allocation so that the call for high rates of modulation will be reduced.

Jobs are key to a thriving local economy so planning policies must be designed to allow small-scale development for growing businesses, making sure that new entrants can have a start in farming and that succession can be encouraged to give young people more responsible roles in their family farms. Share farming, contract farming and landlord/tenant models will help encourage young people to make farming their career choice and will be supported.

Farm Business Tenancies have encouraged land to be rented out but short term tenancies are not helpful to livestock farmers who have to take a longer perspective than arable businesses. Liberal Democrats will encourage landlords to make land available on longer term tenancies in livestock areas.

Roger Williams MP
Liberal Democrats DEFRA Backbench Spokesman

UK INDEPENDENCE PARTY

Every five years the UK's voters have the opportunity to change the direction of the country. EU membership has acted as a ratcheting straitjacket on party politics over the last forty years forcing red and blue alike to agree to policies initiated in Brussels.

In the early days, the CAP was undoubtedly very generous. However, changes forced by the WTO, a huge geographical expansion and ever increasing regulations are persuading many farmers to ask the hitherto un-askable: "Is it worth it anymore?"

UKIP can offer what the others cannot. A UK-based Single Farm Payment Scheme of £80/acre for lowland farms (£64 SDA - £11 Hill/Moorland). The recipient would be required to farm to ELS standard (2013 rules). No cross-compliance, no EFA, no three-crop rule. The payment would be capped at £120,000, which may create some tenancies for new entrants.

Compulsory EID would be abolished; the ban on carcase burial would be abolished (apart from near watercourses); livestock units would be removed from IPPC regulations; white asbestos–cement sheets (chrysotile) would be de-classified as hazardous; a science-based approach would be taken to ascertain safe levels of nitrogen in groundwater, and a 'risk' approach would replace the 'hazard' approach pertaining to the safety of materials – no EU re-registration required for agrochemicals manufactured to British safety standards.

The Climate Change Act would be repealed, abolishing emissions targets for CO2 and methane; 'waste' would be re-defined more sensibly; practical considerations would trump environmentalism regarding watercourse management; proper 'country of origin' labelling; stronger controls on bushmeat imports; badger culling permitted subject to veterinary advice; live exports for slaughter would not be permitted, and a serious study would be commissioned into the humane eradication of the grey squirrel.

WTO rules would prevent the EU from raising tariff barriers against us and, in any case, our 63 million people are their largest export market. Why vote against all this?

Stuart Agnew, MEP
UK Independence Party Agricultural Spokesman

To read the full response from each contributor please go to **www.knightfrankblog.com/ruralbulletin**

PROPERTY TAXES GRAB THE HEADLINES

Tom Barrow is Head of Country Valuations at Knight Frank. For advice on the matters raised please contact **tom.barrow@knightfrank.com** +44 20 7861 1438 or in Scotland **michael.ireland@knightfrank.com** +44 131 222 9625

Tom Barrow rounds up the latest rural property taxation issues

From Westminster to Holyrood, new property taxes are being announced at an alarming rate.

It's not often that one can describe a new tax as "historic", but that certainly applies to Scotland's recently announced replacement for Stamp Duty Land Tax (SDLT).

On 9 October 2014, John Swinney was the first Scottish Finance Minister in 300 years to set a new tax when he unveiled details of the Land and Building Transaction Tax (LBTT) as part of Scotland's draft 2014 budget.

Conceptually, LBTT, which will be paid on the purchase of residential or commercial property from 1 April 2015, is a great improvement on the old SDLT because, like Income Tax, it is progressive in nature. This means each banding of the tax (see table) will only apply to the value of the property above that threshold.

This will avoid the market-distorting effects of SDLT's former slab structure where paying just £1 more could increase the purchaser's tax bill by thousands of pounds.

However, there is a nasty sting in the LBTT tail. Overall, most purchasers are likely to pay less, but the rates for higher-value properties are rather punitive. For houses worth over £1m, the value of the property over that threshold will be taxed at 12%.

This means that the tax bill on the purchase of a £2m house will be almost £200,000.

Scottish Land and Building Transaction Tax rates

Residential transactions		Non-residential transactions	
Up to £135,000	0%	Up to £150,000	0%
£135,001-£250,000	2.0%	£150,001-£350,000	3.0%
£250,001-£1m	10.0%	Over £350,000	4.5%
Over £1m	12.0%		

It took the Scots around a year to overhaul SDLT after first announcing a review. Chancellor George Osborne gave estate agents just a few hours to prepare when he unveiled his own changes to residential SDLT for the rest of the UK as part of his Autumn Statement on 3 December. The new rates kicked in from midnight.

The new system is very similar to LBTT in that it is progressive, most purchasers will pay less and those buying higher-value houses will be hit hard. A purchaser of a house worth £5m will pay almost £165,000 extra in tax.

New SDLT rates for England and Wales

Purchase price of property	
Up to £125,000	0%
Over £125,000 and up to £250,000	2.0%
Over £250,000 and up to £925,000	5.0%
Over £925,00 and up to £1,500,000	10.0%
Over £1,500,000	12.0%

Farmland sales should not be affected because they will either count as mixed-use or non-residential transactions in both England and Scotland. However, the vendors of smaller lifestyle farms, residentially-led estates and lotted farms should take expert advice to ensure the sales are structured to maximise the chance of falling under the mixed-use or non-residential SDLT and LBTT rates, which are much lower. I predict some interesting discussions with the Valuation Office Agency.

In his Autumn Statement the Chancellor also announced another review of business rates, due to report in 2016. Meanwhile, in Scotland, Nicola Sturgeon has just announced controversial plans to abolish business rates exemptions for shooting and deerstalking estates. Both will have interesting valuation implications.

The Labour party has officially announced its intention to introduce a Mansion Tax if it wins power in May 2015. The threshold for the tax would still be £2m, but payment of the tax could be delayed until death or the sale of a property.

If elected, the Liberal Democrats have said they will introduce new council tax bands for higher-value properties. Although fairer than a Mansion Tax, this would still require a large number of revaluations.

HMRC has also just released details of how it plans to introduce Capital Gains Tax (CGT) on the sale of UK properties by non-residents. CGT will be payable on all gains in value from 5 April 2015.

Finally, it also worth a reminder that ATED will be extended to properties worth over £1m from April 2015. Properties covered by ATED will also fall under the new CGT regime for non-resident owners mentioned above. Added to this, Mr Osborne increased the ATED charges by 50% in his Autumn Statement – something of a triple whammy.

The tax regime seems to be subject to a fast and ever changing environment and one can only crystal ball gaze as to what 2015 with the General Election will herald.

KEY CONTACTS

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

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James advises the owners and trustees of many of the UK's leading estates. He specialises in long-term strategic planning and is also an expert on compulsory purchase and compensation legislation.

We help a wide range of clients with all aspects of rural property management. Some of our services include:

- Long-term strategic estate planning
- Day-to-day estate management
- Country house management
- Energy and Renewables
- Compulsory purchase and compensation
- Mapping and GIS solutions
- Marine property and management
- Charity property endowment advice

PROPERTY SALES AND ACQUISITIONS

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Clive has been involved with a significant proportion of the UK and Ireland's most important farm and estate sales of the past two decades, either publicly or discretely off market.

We help our clients to sell or acquire all types of rural property, from investment farmland to sporting estates. Some of the reasons our clients use us include:

- **Global coverage** – Knight Frank's unique international network and database of ultra-wealthy potential buyers gives our clients' properties exposure to the widest possible audience
- **Local knowledge** – Our network of offices and experts around the UK and Ireland gives us first-hand insight into the nuances of regional farmland trends and values
- **Market intelligence** – Our rural research team produces market-leading intelligence on land values and insight into the issues affecting rural property ownership

BUILDING CONSULTANCY

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James has overseen multi-million pound renovations of some of the country's most desirable rural and urban residential properties. He focuses on partner-led solutions to control costs while maintaining the highest standards.

Whether your property is a country house or a London mansion our team can advise on all building consultancy issues. Some of our services include:

- Project management
- Renovations and improvements
- Listed buildings advice
- Building and party wall surveys
- Design and architecture
- Insurance valuations
- Expert witness

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Tom is one of the UK's most experienced valuers of estates, farms, land, rural businesses and country houses. He also provides consultancy and expert-witness advice for valuation disputes and legal issues.

We can provide RICS-approved valuations on all types of rural property across the UK for the following purposes:

- Sale or purchase
- Bank lending
- Matrimonial issues
- Tax issues such as IHT, CGT and ATED
- Compulsory purchase and compensation
- Company accounts

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