



This month we have invited a selection of our land agent colleagues to contribute some insights for landowners.

Valuing farm tenancies: art or science?



Valuing land that is subject to the old-style Agricultural Holdings Act farm tenancies is difficult due to the lack of comparable evidence that is normally used when valuing farms.

A key issue is that sales of tenanted farms in their various forms, tend to be confidential as the tenancy contract is, quite rightly, private between landlord and tenant.

The valuation approach is much the same in valuations of land subject to a tenancy where either one of the landowners is looking to purchase the other's interest or where a tenant is looking to purchase the landlord's freehold share.

In an example where a tenant was looking to purchase the landlord's interest in the freehold element of the property, the starting point was to prepare a valuation assuming vacant possession. This was based on comparable evidence of local sales, as is normal. The next step is to apply a discount to reflect the tenancy. The future length of the tenancy is assessed including factors such as the possibility of tenancy succession, the age and health of the tenant which ultimately lead to a view on how long the tenancy might continue – the longer this is the greater the discount. In the case I was considering, there was a good succession case and high probability that the tenancy would continue so a discount of 40% to 45% was applied.

The next method to consider is the value of the landlords share to another investor. There are many institutional rural investment entities that take a long-term view. The valuation approach is to consider the future rental income and capitalise this, i.e., take a market rent and multiply it by a factor to create a capital figure. Secondly, the future possibility of the tenancy ending can be established by deferring the vacant value, possibly for many decades. These two figures added together give another valuation for the landlord's share.

One of the main assumptions of valuation is that both parties are willing. Typically, in a tenancy situation one party is less willing than the other which means that the tenancy transactions that are conducted are not necessarily the best evidence.

Ultimately, the valuation exercise is just the first part of the negotiation and helps set the scene and present the facts. The parties then have to come to the table and thrash out the case whilst listening to the other side's points. As with all one-to-one sales, it is easy to reach an impasse with one or possibly both sides refusing to move. The skill of the valuer is to ensure this does not occur whilst not simply conceding points or value.



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The development land market



After 20 years in the residential land market, something I have learnt is that housebuilders tend to overreact to dips in the market. Post the disastrous Truss budget, a year ago, house builders reacted by preserving cash and not buying land. Land prices have since dropped 20%, to 2021 levels.

We have seen housebuilders that are unable to continue housebuilding and go into administration. The problem was not that houses could not be sold, but more that an arduous planning system made preserving a steady production pipeline very difficult. Planning is all about politics, and as we approach next year's General Election, planning consents and consequently housing delivery are now at their lowest for many decades.

The Government's current approach to development has resulted in further delays to local plans and a severe lack of land supply with consents. Locally, in Tewkesbury, the first action of the Liberal Democrat leader was to halt the "Garden Town" of 10,000 units whilst awaiting a full external review.

All in all, it makes the future tougher depressing reading with more hurdles in force. Biodiversity net gain (BNG) has the potential to significantly increase planning compliance costs if biodiversity cannot be offered on site, which could adversely affect land value.

The second main issue affecting sites coming forward is the funding position of promoters. In a period of fewer planning consents and more refusals, the heavy cost of promotion is amplified. When selecting land promoters and housebuilders to promote client land, there is now an emphasis on cash being held to deliver the projects.

At Bruton Knowles, our specialist team has sold over £100 million of land this year, and has £150 million currently in legals, as housebuilders take the opportunity to secure consented sites.

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Considerations for biodiversity net gain



Despite delays to the proposed November implementation date, the Government has stressed its commitment to biodiversity. The principle was enshrined in law in The Environment Act 2021, which obliges developers to deliver at least 10 per cent biodiversity net gain (BNG) for residential, commercial and industrial developments. Set out below are five key things for BNG, a crucial market within the lowland nature-based solutions sector.

Six weeks is expected to be the timeframe for application determination. Savills is operating an environmental exchange, a publicly available platform which matches available nature-based solutions with third parties that need them. The exchange enables landowners with natural capital assets to market them to third parties who use the platform to identify geographically specific nature-based solutions to fulfil their requirements.

1. STACKING AND BUNDLING

Land managers can sell both biodiversity units and nutrient credits from the same intervention, such as the creation of a wetland or woodland. Environmental grants, such as environmental land management, can also be uplifted to provide BNG, provided it is clear what the original grant funding is for. For example, if you created a modified grassland for a grant payment, you could then take a baseline from this and improve the habitat condition beyond the requirements of the grant to create biodiversity units for sale into the BNG market.

2. ABOVE 10 PERCENT

Locality is key as a number of local planning authorities are planning to exceed the statutory minimum of 10% through their local plans. Many also introduce priority areas for biodiversity delivery. These two factors have a significant effect on local supply and demand.

3. BIODIVERSITY GAIN SITE REGISTER

Natural England will function as the operator of the mandatory biodiversity gain site register, to record allocations of off-site units and make the information publicly available, but it will not act as a marketplace.

4. STATUTORY BIODIVERSITY CREDITS

Natural England will sell statutory biodiversity credits but only on a temporary basis, with the intention to phase out their availability once the market has matured. The indicative statutory biodiversity credit was published in July starting at £42,000 per unit and rising to £650,000 for lakes. Developers needing to resort to the statutory bank of BNG credits will be required to buy two BNG credits for each unit needed.

5. HABITAT BANKING

Habitats created after 30 January 2020 will be eligible for registration and sale of units. Any enhancements before this date are not eligible and will need to be re-baselined to allow for sales. There will not be a time limit on how long units can be banked before they are allocated. The habitat bank can effectively be split dependent on how many are needed for each development, with separate 30-year agreements for separate developers.



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Land Management



For many years landowners have had to adapt to financial and political change that governs the way in which their assets are utilised and consequently managed. Currently some of the biggest challenges that need to be overcome include loss of government subsidy (BPS), tighter regulation on let property compliance, and an expectation to meet the latest ESG and net zero demands.

Rural landowners have, and will continue, to face legislative change that has a direct impact on their enterprises and therefore profitability. It is vital to see this time as an **opportunity** to review current practices and establish if the assets owned are being utilised to their maximum output, otherwise known as 'sweating assets'.

Often, government announcements affecting land and property mean additional time and capital is invested to ensure compliance. Sometimes, new legislation can assist landowners in taking a risk with new opportunities.

An example of recent changes is the General Permitted Development Order (GDPO) which has provided greater flexibility for temporary use of land and buildings for camping and filming. It has increased the number of days authorised for temporary campsites from 28 days to 60 days for 50 pitches (including tents, motorhomes, campervans but not touring caravans). In addition, land and buildings can now be used for temporary film sets for 12 months in any 27-month period rather than 9 months.

The area included for filming on land has increased from 1.5 to 3 hectares.

It is important, when reviewing potential alternative land uses, to consider the impact on current rural business activities both logistically and financially. Any change in land will also need to consider environmental, social and governance (ESG) impact. Businesses must be mindful of how any change in their current activities will impact their ESG credentials; for example, carbon footprint and contribution to net zero. Thought needs to be given to environmental concerns, adding value to the community, and adhering to any relevant legislation. Adapting to financial and political change will now need to factor in environmental change too; both in terms of environmental policy and climatic change.

Other considerations that will require expert advice prior to any change in land use would be planning permissions and tax implications. The respective experts should be consulted early in the process for change. We consider teamwork with all professionals as essential to manage the changes.

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