

## THE CREDIT CRUNCH

**The so-called 'credit crunch' has been blamed for the more general economic downturn which we now seem to be experiencing and it does not appear that this is likely to be a short-term blip. On the positive side, agriculture appears to be experiencing a boom whilst the rest of the economy experiences a slump.**

The most obvious effect of the 'credit crunch' is the slow-down in the housing market. At present, most market evidence indicates a drop in prices of around 5%. However, the number of transactions have fallen by between 40% and 50% on this time last year. This suggests that buyer confidence is low and that most houses are probably still overpriced. Most house builders have halted construction on a number of sites and are only carrying on with properties nearing completion. However, this reaction is only ever a temporary one – national housebuilders are in the business of building and selling houses, even if at lower prices.

As build costs, finance costs, developers profit margins and infrastructure costs are all still remaining constant, the whole of the drop in house prices unavoidably comes off the land value. The effect of the maths (combined with the developers' perception of risk) means that the 5% drop in house values is resulting in a 20% drop in land values. If, as anticipated, house prices continue to fall, this reduction in land values will be accentuated further.

Large parts of our area are affected by the Milton Keynes and South Midlands Sub-Regional Strategy (MKSM). The scale of the developments planned (169,800 houses by 2021) means that huge amounts of infrastructure such as schools, health facilities, major road and service infrastructure needs to be provided. Even before the impact of the 'credit crunch', there were concerns that the cost of this would mean that land values would probably



only just meet the Minimum Values contained within the Option agreements (typically between £60,000 and £100,000 per acre – a far cry from the headline figures of £1.5 million per acre which are misleadingly quoted).

There is now concern that even these Minimum Values may not be met, in which case developers will not be able to afford to exercise the Options and will attempt to renegotiate with landowners. Given the high returns currently available from farming land, selling for development at less than £60,000 per acre may not seem such an exciting proposition.

If the market grinds to a halt, the government will finally have to re-examine its policy of expecting landowners to fund all of the infrastructure required by a new development.

**At Samuel Rose we are very experienced in dealing with all aspects of development land and Option Agreements. If you have any queries about an existing agreement or potential development land, please contact Nicola Beers or Penny Duggleby on 01604 782700.**

### Comment

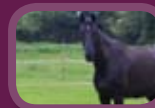
Global economic issues are creeping into all aspects of daily life. For example, the average 4x4 costs £1,400 more to keep on the road year on year. Aspects of the service industry are slowing down and consumers have less money in their pockets. Houses aren't selling and those selling houses, and working further up the chain in conveyancing, etc., are facing bleak times. City bonus packets look like being significantly lower, which in turn will affect expenditure and perhaps an element of the 'lifestyle' farm buying market – see the agricultural land values article for more on this subject.

In times of depression agriculture historically does well, and stronger commodity prices underpinned by bullish fundamentals in most sectors are encouraging. However, with input prices rocketing, careful forward planning is essential as costs of production increase significantly – for example £30/t for wheat. Securing some element of profit using grain options or other mechanisms has to be considered this harvest, as favourable weather indicates a massive global harvest.

At Samuel Rose we are frequently asked about agricultural and functional need dwellings, linked to both farming and diversified enterprises. Working with Smith Stuart Reynolds, our sister planning consultancy, we have a specialism in this area and a high success rate.

A warning note, with the residential market stagnating, many developers are not pushing forward land held under option. It is important to ensure that the terms of the option for the promotion of land are fully complied with by all involved and that progress is monitored. Please contact us if we can be of assistance.

**William Tongue  
Managing Director**



## THE CODE FOR SUSTAINABLE HOMES

From 1 May 2008 all new homes have to be assessed against the Code of Sustainable Homes. The Code measures the sustainability, in particular in terms of energy efficiency, of a new home using a 1 to 6 rating system.

Currently developers don't have to build to a certain level of the Code. However, from 2010 new homes will have to meet the requirements of Level 3 of the Code, by 2013 Level 4 of the Code and by 2016 all new homes will be required to be zero carbon, Level 6. This means that in only eight years there should be zero net emissions of CO<sub>2</sub> from all energy use in new homes.

It is expected that for new housing developments to be zero carbon, wind turbines and combined heat and power plants will be required to independently power the developments.

## A14 CHANGES

The Highways Agency has recently announced its intention to 'improve' the A14 around Huntingdon. A new route of three lanes is proposed between Fen Drayton and Brampton on the A1 and a dual carriageway between Brampton and Ellington alongside the existing A1 which will be upgraded to three lanes. The old A14 which runs over the top of Huntingdon station will be changed to facilitate better access to the railway station.

The Highways Agency's announcement follows detailed consultation on various routes. The next stage is a more detailed design, the publishing of draft statutory orders and an environmental statement.

Local landowners need to be looking at opportunities from construction contractors, suppliers of minerals and for planning permission for development predicated on the road changes. Please contact Lennox Thomson on 01604 782715 to discuss the potential of your land.



## AGRICULTURAL LAND VALUES

**The rapid increase in agricultural land prices is well documented with the Royal Institution of Chartered Surveyors reporting price rises of 28% in the six months to early 2008. Savills' research indicates a 19% rise in the first 3 months of 2008 for arable land.**

Prices have doubled since late 2005 and apply not only to arable land but surprisingly to pasture land, despite high feed prices. This increase can be attributed to a range of factors including:

- A rise in cereal prices caused by the growing demands of the new Indian and Chinese middle classes for wheat rather than pulses.
- Predictions of land loss to rising sea levels.
- Competition from biofuels for land.
- Drought in the southern hemisphere.

Other factors, which are not directly economic, play their part. The Chancellor's changes to the capital gains tax regime proposed in October 2007 (operational from April 2008) drove supply. Just as the British are looking to invest in Eastern Europe, the Irish and Dutch are competing for British land which costs less than half

that in their homelands; and the strengthening Euro against the Pound makes British land further competitive.

What advice should your adviser give? If you are looking to sell in the short to medium term then portents indicate the market will continue to rise rather than fall. Demand factors remain unchanged whilst supply should become more constrained now the new capital gains tax regime applies. However, there's always a risk the bubble may burst! 150 acres of bare arable land sold on the Warwickshire /Leicester border in April for over £8,000 per acre.

For existing landowners with no intention of selling, the benefit of inflated balance sheets should not be ignored. Many are loosening the purse strings to invest in machinery and buildings. There is also opportunity to invest in longer-term projects both on and off farm.

**Oversight and management of capital projects and farm budgeting are both part of the bread and butter of what we do here at Samuel Rose. We would like to help you seize the opportunities that are currently available. Please contact William Tongue in the first instance on 01604 782719.**

## OPTION TO TAX

The Option to Tax was introduced in the UK in 1989 for commercial property sales and rents. Opting to tax means that when the property is sold VAT must be charged on the price or, if the property is let, VAT is charged on the rent. The benefit to property owners is that VAT can be reclaimed on costs spent on the property.

One of the disadvantages of the Option to Tax is that it cannot be revoked for 20 years. Next year will be the first year that properties can be revoked since the introduction of the scheme. New rules are being brought in from 1 June 2008 that will cover the conditions of revocation.

## WHEN IS A HORSE A HORSE?

**The definition of Agriculture in the 1990 Town & Country Planning Act dates back to the 1940s and consequently gives rise to much debate in the modern diversified agricultural economy where 'horsiculture' can have significant value.**

Fundamentally, agricultural activities include 'the breeding and keeping of livestock (including any creature kept for the production of food, wool, skins or fur, or for the purpose of its use in farming of land)'. Thus horses used for leisure purposes typically fall out of this description. However, things are slightly greyer when it comes to breeding horses – some would argue that the definition includes 'creatures kept for food, etc.' but does not specifically exclude other uses. As horses can be kept and bred, then there are instances where stud farm operations can be taken to be agricultural.

Complicated and possibly tenuous arguments are hard to pursue in the planning system without deep pockets and plenty of patience. Realistically, it has to be generally expected that most forms of horse related use will be taken to be non-agricultural (i.e. will require permission for change of use) if a local authority wants to take issue with it. Technically, they could take issue at any point where the use of the land changes from mere 'grazing' (i.e. grass only, no

shelter or service) to 'keeping' where field shelters, stables and an element of service become involved. In practice, the line is usually crossed where a fairly obvious diversion from agricultural use takes place – i.e. new-build stable units, ménages and 40-acre grass fields split into a layout of numerous enclosures.

So does it follow that conversions, new buildings and new dwellings in the open countryside are not possible where horses are involved? Not necessarily. Current planning policy recognises the economic role of training and breeding enterprises, suggesting that local authorities should make provision for supporting such enterprises with facilities. It also goes on to clarify that dwellings associated with equine uses may be appropriate, provided they comply with the same tests (functional, financial, etc.) as agricultural dwellings. The key, as always, is to fully understand the way the policy works in practice and only to approach the local authority when the strategy has been clearly thought through.

**Samuel Rose, in conjunction with its sister planning consultancy Smith Stuart Reynolds, specialises in all aspects of rural planning. Please contact William Tongue on 01604 782719 or Paul Smith on 01604 782708.**

## MAKING SURE YOU SELL

**The current 'sticky' housing and commercial property markets mean that vendors should be committed to making their properties as attractive as possible; not concentrating solely on the repair and refurbishment of their property but also on collating all necessary paperwork prior to active marketing.**

Energy Performance Certificates and Home Information Packs for dwellings are now statutory requirements. Other issues are becoming a necessity for purchase conveyancers and mortgagees and hence purchasers. For example, a Corgi gas check on gas installations, electrical tests, radon, asbestos surveys, copies of planning consents and, if relevant, Local Planning Authority confirmation of compliance with conditions and copies of Building Control Completion Notices if recent changes have occurred to the property.

Many of these matters will be readily available if the property has been efficiently maintained but other matters are not so swiftly complied with, particularly if a check highlights a significant issue. An expectant purchaser may not be prepared to await compliance. Therefore, if you may be selling in the foreseeable future then ensure that relevant information is collated and kept up to date.



## CASE STUDY ●●●●●

**In 2006, Polly Conroy from Great Missenden, Bucks contacted William Tongue from Samuel Rose for suggestions on how to start up a profitable beef business. She took his advice and now has a herd of 77 cattle, is killing 2 per week, supplying two of the most famous restaurants in the country and turned over £129,000 last year.**

After living and working overseas for 6 years, Polly wanted to set up a business based around her love of cattle and rural life and make an income from both the 7 acres owned and the 37 acres that her family rented. At this time there were 15 cows and assorted young stock on the farm. After seeing an advert in *Farmers Weekly*, she decided to give William a ring. Polly and William discussed different models of production; her initial thoughts were to buy in 100 store cattle and fatten them.

William advised her that, in the market at that time, she would lose money and the most sensible way of making a profit out of cattle was to base production on a lower number of rare breed suckler cattle with direct sales of the end product in mind.

Acting on this advice, Polly started the business using the existing herd. She initially advertised in local shops and sold to friends, family and local villages and was killing 1 beast/month to satisfy demand. A visit to her local pub in November 2006 changed the business overnight, literally! She saw renowned chef Phil Vickery and decided to take the 'bull by the horns' and tell him about her beef. After tasting a sample, he was so impressed that he mentioned Polly in his *Daily Mail* column. Her website and online shop was designed and up and running within 24 hours and she has never

looked back. The herd is now made up of continental and rare breed cattle, which are all fed on a natural diet of grass, hay and oats. The beef is hung on the bone for at least 35 days and, as well as the popular range of cuts, Polly supplies traditional cuts such as 'feather and blade' and 'Jacobs ladder'. It is these unique selling points, combined with Polly's hard work and dedication, that have made the business a success.

Polly is now at her production capacity for the 200 acres she farms supplying four farm shops including her own, the online shop, a cookery school, local pubs and two top restaurants in Oxfordshire and London. She was runner-up in the UK TV Food Awards Local Food Hero for the South East and Mark Sargeant from Claridge's has said her product is 'The best beef I have ever tasted'. These accolades and an exciting new venture with Phil Vickery called The Fine Pork Company show that with hard work, determination and some initial professional advice that successful businesses can be created.

**To find out more about Polly's beef, visit [www.thefinebeefcompany.co.uk](http://www.thefinebeefcompany.co.uk) or ring her on 01494 863393. If you would like to speak to William Tongue about starting up your own rural business, please contact him on 01604 782719.**



## COMMODITIES, TAX, THE FUTURE...

**In association with Ellacotts Chartered Accountants, Samuel Rose recently held a seminar at the Northampton Saints rugby ground.**

Guest Speaker Nick Oakhill, Senior Trader at Glencore, explained the factors influencing the current cereals and oilseeds markets and gave his opinion on the long-term outlook.

William Tongue assessed what commodity prices mean to the finances of a 'typical' farm and how best to manage the investable surplus. John Thame, Partner from Ellacotts, looked at the recent changes to capital gains and inheritance tax and tax minimisation strategies. Finally, there was an interactive session using case studies to illustrate the management of tax issues in common farm investment projects. Guests then enjoyed a buffet dinner and drinks.



## CONGRATULATIONS TO MARK GAMMOND

Samuel Rose in conjunction with Lloyds TSB recently hosted a competition for farmers in Oxfordshire. There were five questions on a range of topics to be answered and Mark Gammond from Bucknell was the only entrant to answer all questions correctly. As well as his free business consultation with Phil Barker from Lloyds TSB and William Tongue, Mr Gammond and his wife enjoyed a meal at Raymond Blanc's renowned Le Manoir aux Quat' Saisons as part of the main prize.

### CONTACTS

**William Tongue – Rural Business Consultant**  
Budgets, Appraisals, Strategic Business Reviews, Single Farm Payment, Joint Ventures & Diversification.  
Email: [williamtongue@samuelrose.co.uk](mailto:williamtongue@samuelrose.co.uk)  
Tel: 01604 782719

**Nicola Beers – Chartered Surveyor**  
Development & Options, Property Management, Lettings & Agency and Diversification & Grants.  
Email: [nicolabeers@samuelrose.co.uk](mailto:nicolabeers@samuelrose.co.uk)  
Tel: 01604 782714

**Penny Duggleby – Chartered Surveyor**  
Development & Options, Property Management, Lettings & Agency and Telecoms & Wind Farms.  
Email: [pennyduggleby@samuelrose.co.uk](mailto:pennyduggleby@samuelrose.co.uk)  
Tel: 01604 782716

**Lennox Thomson – Chartered Surveyor**  
Valuation, Compensation, Landlord & Tenant and Rating.  
Email: [lennoxthomson@samuelrose.co.uk](mailto:lennoxthomson@samuelrose.co.uk)  
Tel: 01604 782715

**Guy Banham – Rural Business Consultant**  
Budgets, Appraisals, Strategic Business Reviews, Single Farm Payment and Landlord & Tenant.  
Email: [guybanham@samuelrose.co.uk](mailto:guybanham@samuelrose.co.uk)  
Tel: 01604 782727

**Sophie Oliver – Assistant Surveyor**  
Property Management.  
Email: [sophieoliver@samuelrose.co.uk](mailto:sophieoliver@samuelrose.co.uk)  
Tel: 01604 782703