

TEGoVA LISBON 2024

Agricultural Valuations Conference

The Comparable Approach to Valuation of Rural Property in the UK

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CAAV**

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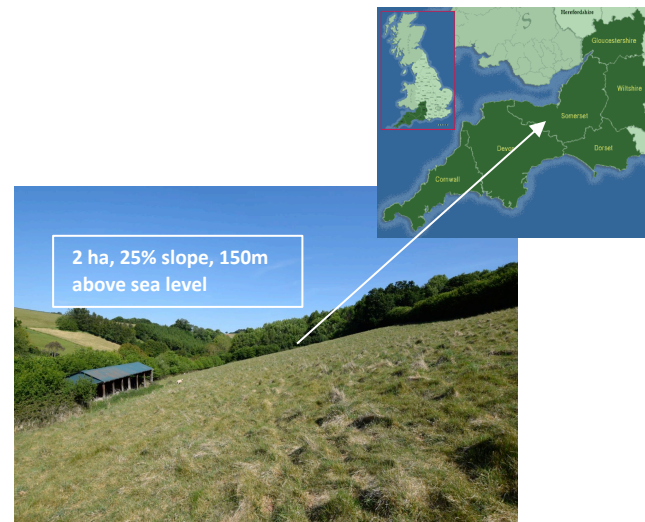
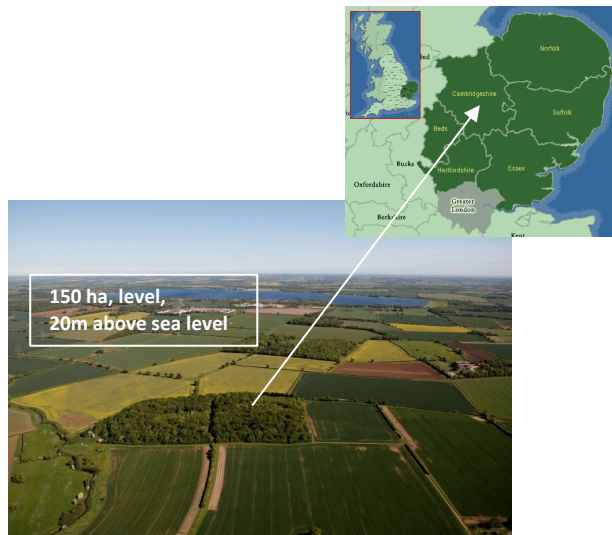
- Introduction ~ the rural land market in the UK
- The Comparable Approach
- The Market & Comparables
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Introduction – About me

- CAAV Executive Committee Chair
- Former CAAV National President
- CAAV Representative to TEGoVA
- Registered European Valuer
- Former Chair of CAAV Valuation Compensation and Taxation Committee

Introduction ~ the rural market in the UK

- An owner occupiers' market
 - VP value is 'top value'
 - Let land will generally trade at a discount
- Diversified
 - With a wide range and scales of property ~ large estates to pony paddocks
 - Across a wide range of land qualities



Introduction ~ the rural market in the UK

- Shrinking
 - Post WW2 c 263,000 ha (650,000 acres) traded per annum
 - 2000's c 65,000 ha (165,000 acres)
 - 2020's c 50,000 ha (125,000 acres)
 - And by number at least predominantly small bare land sales

- Populated by a wide range of parties ~ both vendors and purchasers
 - Farmers, other individual purchasers, corporates & institutions, private estates
 - With a variety of different objectives
 - Farming
 - Amenity/lifestyle
 - Development
 - Rollover Relief
 - Afforestation
 - Natural Capital ~ discretionary & statutory

- Thus with land quality only one consideration alongside
 - Location
 - Potential for alternative use
 - Scarcity

Introduction ~ the rural market in the UK

- RICS~ RAU Rural Land Survey ~ 2020 Full Year
 - 440 transactions
 - 12,000 ha (30,000 acres)
 - c £400 million value
 - Average price
 - Overall £32,045/ha £12,968/acre
 - Weighted £25,674/ha £10,390 / acre

RICS/RAU 2020 Full Year			
	Small	Medium	Large
Transactions by:	<50 acres	51-200 acres	>200 acres
Number	73%	20%	7%
Area	20%	33%	47%
Value	28%	32%	40%

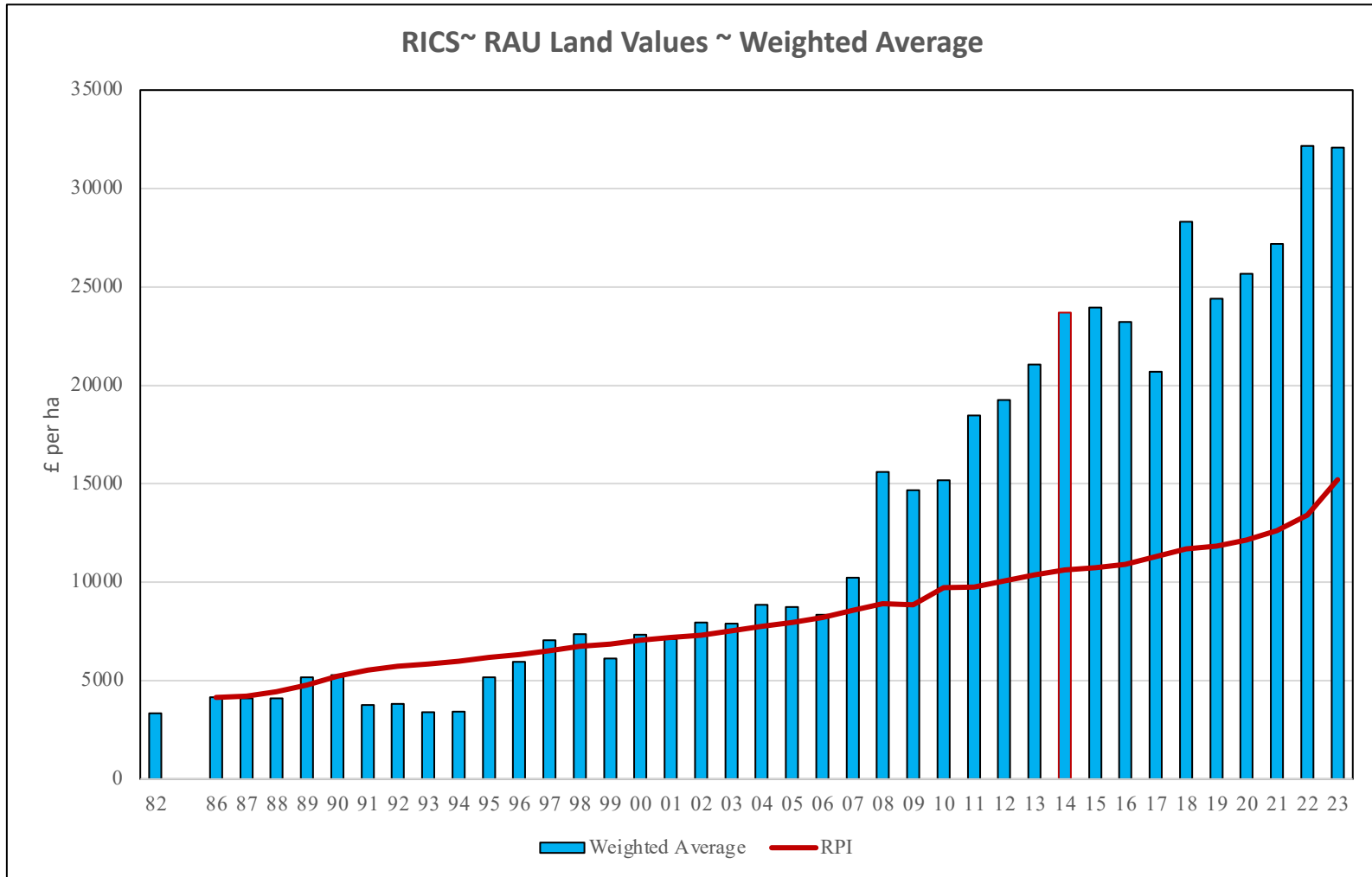
RICS RAU Full Year 2020		
Property Type	% of transactions	Average £/ha
Bare Land	61%	21,256
Land & Buildings	15%	34,273
Dwelling(s) Land & Buildings	24%	42,375

Introduction ~ the range of average values in the UK Market – Capital and Rental

	Capital Value	Rental Value
Hill Land/Fell	8,000 – 15,000	75 - 250
Poor Grass	15,000 – 20,000	250 - 300
Improved Grass	2,000 – 2,500	300 - 375
Combinable Crops	25,000 – 30,000	375 - 600
Silt/Fen	30,000 – 40,000	600 – 750

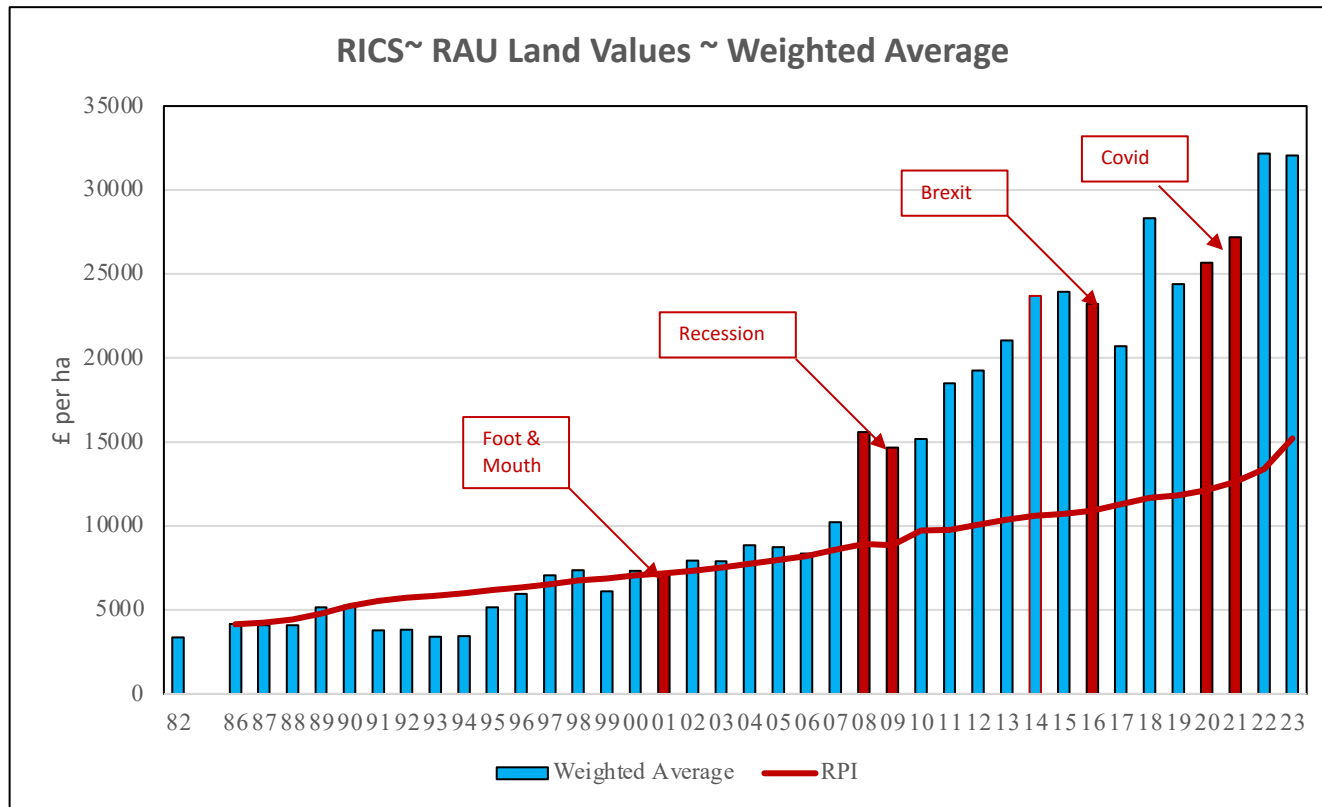
* Figures stated in £/ha equivalent to £3250 - £16000/acre or £30 - £300 per acre per annum

Introduction ~ The rural land market in the UK



Introduction ~ The rural land market in the UK

- And the rural market in the UK is
 - Robust
 - Contra-cyclical



The Comparable Approach

- Perhaps the 'purest' approach to valuation ~ reflecting the market
- But perhaps the most subjective form of valuation, dependent on:
 - The skill of the valuer in:
 - Understanding the market
 - Analysing the place of the subject property in the market
 - Researching relevant comparables
 - Adjusting comparables to suit the subject property
 - An adequate supply of comparables
 - Valuation uncertainty
- Recognises that the Market Value is not simply a function of financial output:
 - Non-financial elements of value
 - Sale and purchase of land is as much about heart and head
 - Common sentiment amongst purchasers ~ the chance to buy will never come again

The Comparable Approach ~ in practice

- In some circumstances, bare land for example, there may be a reasonable range of comparables, albeit needing adjustment

- In other cases, i.e. whole farms, there may be few direct comparables so the valuation may need to be constructed from the sum of constituent parts; e.g:
 - Dwellings
 - Farm buildings ~ with the associated difficulty of a lack of evidence
 - Land, by use or quality ~ arable, pasture, woodland

- Key merit of comparables
 - Proximity

The Comparable Approach ~ Robust comparables

- Type of property
 - Scale
 - Nature
 - Constituent elements
- Location
 - Geographical relation
 - Environment
- Date
 - Time
 - Market
- Legal
 - Ownership
 - Occupation
- Motivation
 - For sale
 - For purchase
 - Check parties
- Challenge ~ can you find them ?
 - For the whole
 - For constituent elements
- Rural market
 - High degree of variation
 - Highly localised
 - Under supplied
- Use both comparables for
 - Constituent elements &
 - The wholewhere available !

The Comparable Approach ~ in practice

- Adjustments to comparables
 - What are the key factors influencing value?
 - How to adjust where required ?
 - How much adjustment invalidates a comparable ?

- Approaches to adjustment
 - Key factors
 - Constituent elements
 - Location
 - Quality
 - Condition/repair

- Mechanics of adjustment
 - Different approaches including:
 - Specific adjustment by value ~ recognising the difference in accommodation between the subject and comparable properties
 - Percentage adjustment to reflect other differences ~ location or amenity

The Comparable Approach ~ Analysis – Weighing the Evidence

- Analysis as applied to rural property
 - Detailed analysis
 - Holistic approach
 - Hierarchy of Evidence
- Detailed Analysis
 - Individual elements
 - Additional/fewer dwellings
 - Specific income streams (let buildings)
 - Different quality/size principal house
 - Potential development
- Holistic Approach e.g.
 - Quality / demand for area
 - Quality of dwelling
 - Condition of dwelling
 - Capacity / condition of buildings
 - Services
 - Timing
 - Special purchasers

The Market & Comparables

- Given the limited supply of land coming to the market
 - Are we operating in a period of perpetual valuation uncertainty ?
 - Is the comparable approach still viable ?

- Valuation uncertainty
 - Paucity v absence of evidence
 - Casting a wider net for comparables
 - Stretching adjustments

- A thin market demands
 - Greater expertise on the part of the valuer
 - Transparency and consistency of approach

The Market & Comparables

- In a thin market are there alternatives to the comparable approach ?
 - Income related
 - Capitalising estimated rental value
 - Capitalising productive capacity ?
- But value is multi-functional not just related to potential financial output
 - Paucity v absence of evidence



- FBT rental value ~ £450/ha
- Gross Margin ~ £1,200/ha
- Capital Value ~ £22,300/ha
- Multiplier ~
 - rent ~ 50 x
 - GM ~ 18 x



- FBT rental value ~ £200/ha
- Gross Margin ~ £400/ha
- Capital Value ~ £34,600/ha
- Multiplier ~
 - rent ~ 173 x
 - GM ~ 85.5 x

- The challenges around yields and their low level.

Emerging Markets

- Some emerging rural markets where comparable approach may not be the best/only method
 - Development potential
 - Additional revenue streams

- Potential examples
 - Diversification
 - Renewables
 - Natural Capital

Emerging Markets ~ Diversification

- C 2/3rds of farms in the UK have some form of diversification
 - More than half of those are lettings of buildings or land
 - Additional value
 - Investment income ~ rent
 - Operator income ~ holiday rents
 - Other diversifications – broadly
 - Tourism/leisure
 - Added value
 - Approach ~ new tools
 - Rental income ~ investment approach
 - Operator income ~ Profits Approach ~ Goodwill

- But does this always add value
 - Goodwill ~ how dependent on operator expertise
 - Revenue streams ~ to what extent might the activity detract from other values
 - amenity value
 - residential loss of privacy ~ value & conflict

Emerging Markets ~ Renewables

- Increasingly relevant opportunity for rural property although contingent on externalities
 - Planning permission
 - Grid infrastructure

- Lease to renewable operator will generate ‘additional’ revenue which of itself should logically have a capital value, but:
 - Method of assessment
 - Negative impact ~ e.g. adverse effect on the value of nearby residential property

- But alternatives may apply where the energy is self consumed
 - Capital value of cost saving on home generated power
 - Or profits related

Emerging Markets ~ Renewables

■ Methods ~

– Comparable

“In summary the valuer should be wary of an over-simplistic approach”

– Investment

“...considerable caution may be necessary...”

– Profits

“...difficulties in adopting a standard profit methodology...”

– Residual

“...lack of transparent transactions in the marketplace...”

– Depreciated Replacement Cost

“...often referred to as the method of last resort...”

– Discounted Cash Flow

“...considerable input is required from client and other advisors...”

– Multiple Regression Analysis

Deloitte analysis of solar farm sales

Emerging Markets ~ Renewables

- Dale Foods Cheese Factory Cookstown
 - To enable expansion in an area of limited electricity capacity
 - Solar Farm to provide 20% of cheese factory power requirement
 - 20 year supply
- So is the real value here a ‘utility value’
 - A function of the added energy security for the additional production
 - Variation on Profits Approach ?



Emerging Markets ~ Natural Capital

- Future Markets
 - Rewilding
 - Carbon
 - Environmental Social and Governance
 - Biodiversity Net Gain
 - Nutrient Neutrality
 - Grant farming

- Players ~ Evangelists. Hyperbole & the Chatterati

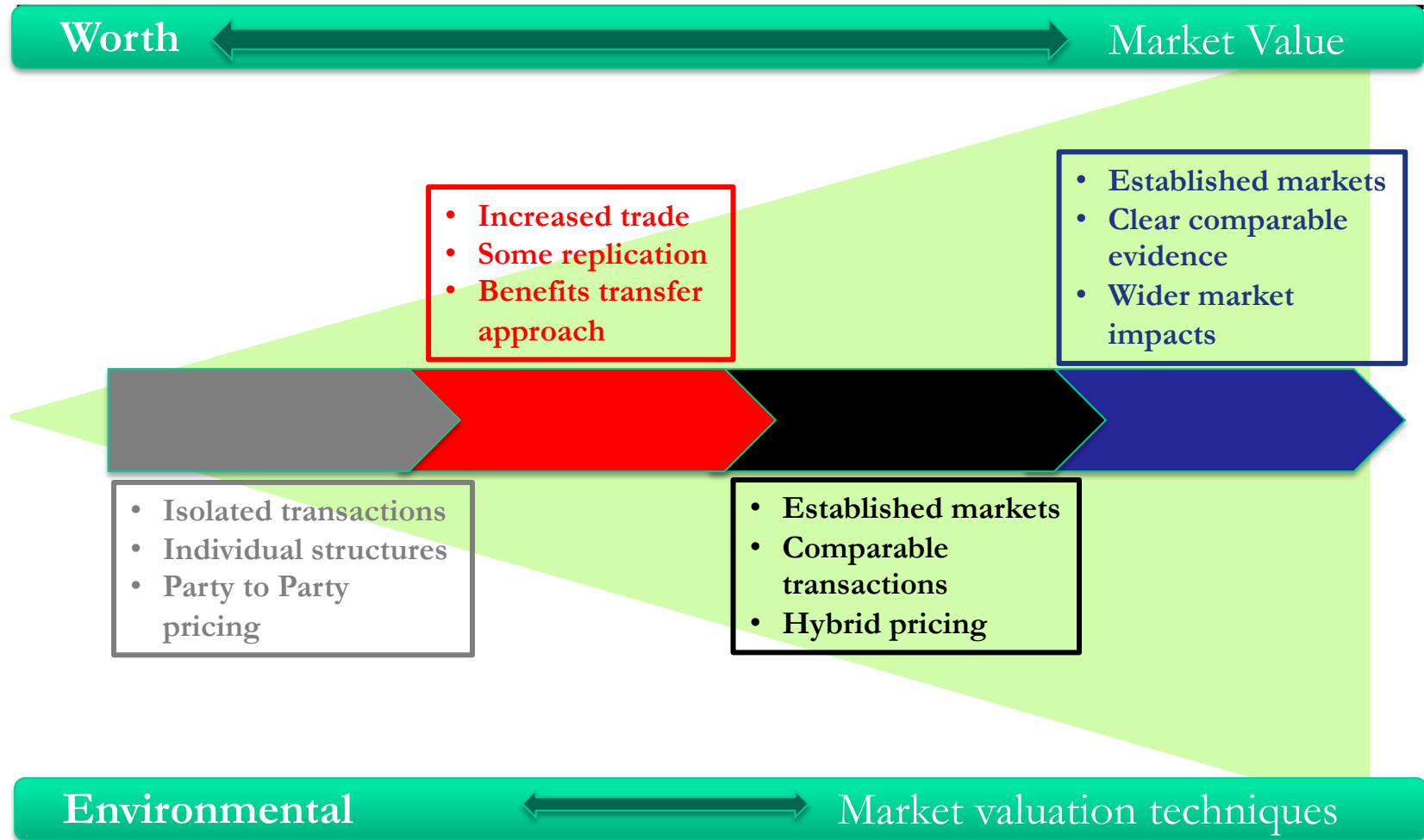
- Two emerging questions:
 - Valuation caveats
 - Drafting
 - Justification – what other unknown unknowns are there
 - PII
 - Future protection
 - Overage clauses
 - Restrictions

Emerging Markets ~ Natural Capital

- Novelty / Sustainability
- Issues
 - Market
 - Commercial
 - Regulatory
 - Transaction
 - Sale
 - Management Agreement
 - Conservation Covenant
 - Palatability
 - Vendor
 - Public opinion
 - Valuation Approach
 - Environmental economics
 - Investment
 - Comparables
 - Residual
 - Natural Capital Value or Amenity Value?



Emerging Markets ~ Natural Capital



Conclusions and Questions

Thank you