SMITHSGORE

Effect on values of extending succession and assignment to holdings subject to the Agricultural Holdings (Scotland) Act 1991

23rd December 2014

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FOREWORD

We refer to your instructions to provide valuation advice in respect of possible agricultural tenancy reform to facilitate Scottish Land & Estates policy formulation and set out below our report.

We trust that this report is satisfactory for your present purposes, but should you require any further information or clarification then please do not hesitate to contact us.

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Valuation date
23rd December 2014

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1.0 SUMMARY

This report looks at the effect on freehold values of various proposed changes to succession and assignment rights to land subject to the Agricultural Holdings (Scotland) Act 1991 at a national level.

The valuation relies upon national statistics produced by the Scottish Government, by region, on areas of land subject to Agricultural Holdings (Scotland) Act 1991 and rent surveys, combined with market evidence from the Smiths Gore sales database, to arrive at an estimated capital value of land subject to this type of tenancy. The valuation methodology adopts an investors approach based on capitalisation of projected income return and probability of vacant possession.

To assess the effect on value of the proposed changes in rights of succession or assignment we have used data collected by the Scottish Government Social Research (2014) Survey of Agricultural Tenant Farmers as to tenants' age profile, eligibility or not for succession and expected retirement ages. We have then apportioned the value of the national portfolio against this data. Using a combination of market evidence and investment valuation techniques, each of the proposed changes is considered, validated with example case studies, to arrive at the effect on the national value.

The impacts have been assessed on a national basis and on the basis of impacts in specific circumstances. As there is no investment market evidence available in Scotland we have used evidence from the England and Wales market for similar tenancy types. The nature of the 1991 Act tenancy let sector has been assessed by region. The impact of the proposals however is dependent on a number of factors set out in this report.

This report finds:-

- Values for land subject to a 91 Act tenancy are already reduced due to the security of tenure enjoyed by the occupier. The differential in value between vacant possession and let values is well understood within the industry and this is evidenced in the report.
- The proposals envisage changing the landowner's circumstances either by extending the range of successors or creating a range of opportunities for the tenancy to be assigned.
- All of the proposals have an impact on landowner values because they reduced the prospects of the tenancy coming to an end.
- The most significant impact would be unlimited assignment which will affect the market as a whole based on evidence from England and Wales which have similar rights of assignment by default.
- Within the different letting circumstances, those agreements where there are no successors and the landowner at present has a reasonable and identifiable expectation of the land coming back in hand have the largest effect. Our figures may underestimate this because we have not been able to segment the 60+ age band.

- Evidence suggests that the "no successor" situation arises in approximately 20% to 26% of succession cases. For the purposes of this valuation we have utilised the 20% figure identified in the Government lead research.
- In some cases it is recognised that there will be indirect impacts as a result of some of the proposals. Our valuation has focused on the direct results of the proposed changes.
- All of the proposals will lead to a loss in the investment value of land subject to the 91 Act tenancies. The largest loss will be as a result of assignment, with more limited losses for the other scenarios. It is important to realise these are averages, and therefore that at an individual tenancy level some of the losses could be more significant.

SUMMARY OF LOSSES

		Gain/Loss (£ million)
3.1	+ Succession extended	(285)
3.2	+ Unlimited Assignment	(1,780)
3.3	+ Assignment pre-emption	(1,664)
3.4	+ Assignment to LDT	(297)
3.5	+ Assignment to Retirement interest	(297)

2.0 METHODOLOGY

2.1 BRIEF

We have been asked to consider the national effect on the investment value of properties subject to Agricultural Holdings (Scotland) Act 1991 (91 Act) as a result of various proposed changes to the succession and assignment rights as follows:-

i) An extension of succession rights for 91 Act tenancies from the current 'near relative successor'. This is taken to mean spouses, children and grandchildren of all those who might qualify as an intestate heir in terms of the Succession (Scotland) Act 1984. In other words not just those who would qualify at the point of death but the full potential class thereby encompassing the wider extended family.

ii) That an existing secure 91 Act agricultural tenant may be able to assign their lease <u>for value</u> to any person, with the same 1991 Act rights continuing with the new tenant (without a landlord right of pre-emption but including suitable tests relating to the assignee).

iii) That an existing secure 91 Act agricultural tenant may be able to assign their lease <u>for value</u> to any person with the same 1991 Act rights continuing with the new tenant (with a landlord right of pre-emption and including suitable tests relating to the assignee).

iv) That an existing secure 91 Act agricultural tenant can assign their lease <u>for value</u> to any person (without the landlord having a pre-emptive right to buy), where the lease would convert to a limited term of 25 years. This would potentially discriminate against those landlords where the circumstances of a particular tenant would result in the land coming back in hand earlier than the 25 year fixed term.

v) That an existing secure 91 Act agricultural tenant can assign their lease <u>for value</u> to any person (without the landlord having a pre-emptive right to buy). Where the lease would have a duration equivalent to the pensionable age of the acquirer.

The valuation analysis takes into account reasonable assumptions about the consequential effects of the scenarios such as the probability that providing the 91 Act tenants with a right to assign their lease will be seen by the market as reducing any future challenge of an Absolute Right to Buy through the European Court.

2.2 91 ACT TENANCY

This is a secure tenancy governed by the Agricultural Holdings (Scotland) Act 1991. This 91 Act regulates lease terms including fixed equipment obligations by landlords and rent reviews, notices to quit, etc.

The current provisions on succession/assignation for 1991 Act tenancies are:

- Succession on death : Only near relative successors (spouse, children and grandchildren - including adopted children and grandchildren) can succeed without risk of the lease being terminated.
- Assignation in life : Only those who would qualify as an heir on intestacy, assuming the incumbent were to have died at the point of assignation, can succeed without risk.

The rules of who can succeed as intestate heirs operates on the basis of a number of expanding classes of potential heirs depending on there being no heir within the relevant class.

2.3 91 ACT TENANCY VALUATION METHODOLOGY

People acquire an asset for the benefits that they can derive from its ownership. Since vacant possession is unlikely due to security of tenure, the immediate benefit for an investor buying the freehold of an asset subject to a 91 Act tenancy is the rental income. Thus the primary method for assessing the value of a 91 Act tenancy is by capitalising the current and projected rental income.

An example is show in **Figure 2.1** below, where there is the prospect of a rent increase. The capitalisation yields used will come from market evidence, which reflects not only investors' attitude to the income, but in the case of 91 Act holdings because the capital value is significantly reduced, the likelihood of a significant uplift though vacant possession. In this example a lower yield is used on the current rent as it is known and secure, where the estimated rental uplift is capitalised at a higher yield to reflect the risk and costs of getting this increase.

Figure 2.1 : Example valuation of a property subject to a 91 Act tenancy

Dumfriesshire arable farm of 228.65 acres with large farmhouse.

Estimated rental value £14,400, vacant value of £1,594,000

Current rent	£ 12,250				
Capitalise in perpetuity at		1.75%	57.143	£	700,000
Estimated Rental Value	£ 14,400				
Less current rent	£ 12,250				
Top Slice	£ 2,150				
Capitalise top slice in perpetuity at		2.75%	36.36364		
Defer 2 years at		2.75%	0.94719		
			34.44321	£	74,053
Investment Value				**£**	**774,053**

Equates to a passing yield of 1.58%, or 49% of the vacant value

The Estimated Rental Value (ERV) will come from separate analysis of the holding looking at the land quality and assets provided, based on a 91 Act letting. The vacant possession value will come from a similar analysis, after allowing for tenants improvements. At the end of these calculations an investor will consider the investment value in relation to the vacant value and the passing yield (a product of dividing the rent by the investment value), to assess if these are reasonable.

From this example two things are notable. Firstly that the capitalisation yields are very low, especially compared with other commercial property investments and secondly that the value of the investment is reduced considerably by the 91 Act tenancy.

The yield chosen to capitalise the income will come from comparable evidence in the market of 91 Act tenancies. This yield encompasses a number of factors including investors' attitude to the risk or expectation for rental growth, agriculture's performance related to other investments, the likelihood of void periods or rent arrears, agriculture's tax competitiveness etc. An illustration of this yield adjustment can be seen in this example, where the yield used on the estimated rental increase is higher to reflect the costs and risk of getting this rise.

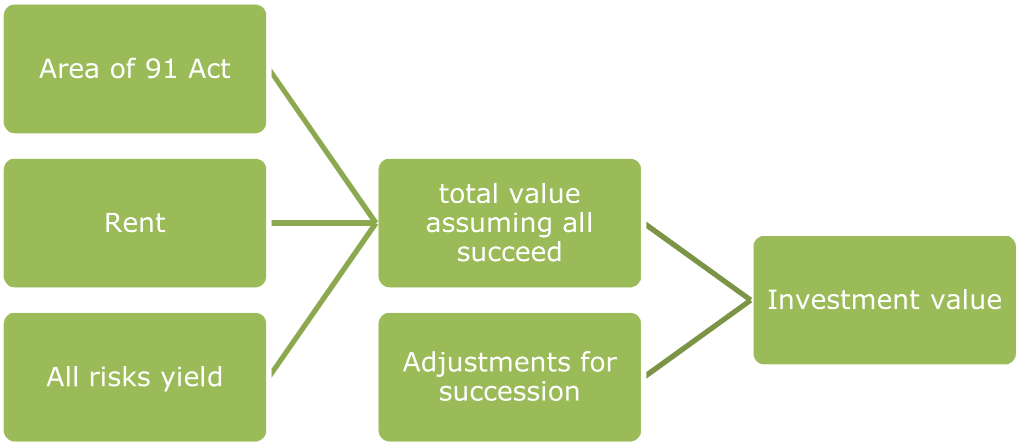
However, one of the biggest factors relates to the potential vacant possession value. As the value of land subject to a 91 Act tenancy is less than the vacant value, there is a locked up value equal to the difference between the vacant and investment value, net of any compensation to the tenant for improvements. Thus the higher the yield, the lower the capitalisation rate on the income and the greater this locked up value becomes. As the discount to vacant possession becomes larger, the more incentive there is for the investor and occupier to do a deal to unlock this vacant possession premium. As a result this tends to set a floor in the market and hence why yields are so low. This is also why some valuers and investors take the short cut to valuing a property subject to a 91 Act tenancy by valuing on a percentage of the vacant value, rather than arrive at a value using yields, which takes longer and is more complicated. This percentage does however vary over time as capital values and rental levels of property move independently of each other. Therefore while in the current market 40-50% may be appropriate, this could change in the future, and has in the past.

It is also worth noting the difference between the passing yield, (a function of dividing the current rent by the investment value), and the capitalisation yields used in the calculations. Where the current rent is equal to the ERV, then the capitalisation yield will equal the passing yield. However as in this example, where there are the prospects of a rent increase, the passing yield will be lower. This is a factor we need to consider in our calculations later, when using national average rents, since the yield we use might be lower than a valuer may use when valuing an individual farm. Where a valuer has detailed knowledge of the unit and projected income streams they will use two capitalisation rates as in the example above. However since we do not have this information we are therefore going to capitalise rents based on the passing yield.

2.4 OUR APPROACH

To assess the effect on value at a national scale accurately one would want to a refer to a database of all 91 Act tenancies in Scotland including details of current rental income, estimated rental values and vacant values as well as details about the likelihood of succession. Obviously no such database exists and we have therefore used national databases with more limited information as well as other surveys.

In Scotland there have been a number of recent studies into the tenanted sector as well as an annual census survey. This gives us a good estimate of the rental income and area of 91 Act tenancies. We have then combined this with our analysis of capitalisation yields to arrive a capital value. To reflect the succession issues we have then treated Scotland as a single portfolio and apportioned the value between the different prospects of succession, based on their age profile and survey responses.



2.5 Area let on 91 Act

The Scottish Government's Rural and Environment Science and Analytical Services (RESAS) carry out an annual survey known as the June Agricultural Census (JAC). This collects data on land tenure in Scotland broken down into the various regions with the latest one published on the 29th April 2014.

The return rate for the JAC is however about 70%. The RESAS has made an estimate for the missing 30% by collecting previous years' survey data as well as data from the Single Application Form (SAF) as part of the Integrated Administration and Control System (IACS). As was explored in the Scottish Agricultural Tenure Evidence Review report by the Scottish Government Social Research (SATR 2014), although these estimates were not perfect, they concluded this gave a reasonable estimate of the total area and breakdown between tenures. We have therefore concluded that we should use the same data as the SATR 2014. Thus although the JAC 2013 recorded 791,970 hectares of land subject to 91 Act tenancies, we have used the estimated total from the SATR 2014 of 886,838 hectares as is shown in

Figure 2.2.

Figure 2.2 : Estimate of 91 Act lettings (SATR 2014, table 19)

Tenancy Type	Hectares	Holdings
Small Landholders Act	5,197	118
LDT	76,076	292
SLDT	87,210	508
1991 Ltd Partnership	134,593	418
Reported 1991 Act	*791,970*	*4,547*
Estimated 1991 Act	886,838	*5,793*
TOTAL LET	1,981,884	*11,676*

On page 27 the SATR 2014 report also gives a percentage breakdown by regions in their Figure 16 which we have used to apportion the area subject to 91 Act lettings by region. We have then converted this data from hectares to acres as investors tend to be more familiar with acres when valuing.

These calculations are shown in
Figure 2.3.

Figure 2.3 : Estimated area of 91 Act tenancies by region **(**SATR 2014)

Region	**% let on 91 Act** *(Figure 16)*	**91 Act area** *apportioned Est. Total Table 7* **(ha)**	**91 Act area (ac)**	**91 % of Let**
Argyll & Bute	10.60%	94,005	232,286	77%
Ayrshire	4.00%	35,474	87,655	67%
Clyde Valley	4.20%	37,247	92,038	78%
Dumfries & Galloway	10.85%	96,222	237,764	69%
East Central	5.20%	46,116	113,952	83%
Eileanan an Iar	0.80%	7,095	17,531	89%
Fife	1.60%	14,189	35,062	77%
Highland	22.65%	200,869	496,347	77%
Lothian	2.70%	23,945	59,167	84%
NE Scotland	14.00%	124,157	306,793	74%
Orkney	0.70%	6,208	15,340	64%
Scottish Borders	9.50%	84,250	208,181	65%
Shetland	1.10%	9,755	24,105	91%
Tayside	12.10%	107,307	265,157	79%
		886,838	2,191,377	75%

2.6 RENTS OF 91 ACT

The JAC collects information on rents, by region and by type. The regional breakdown is shown below in **Figure 2.4**. Unfortunately this is not broken-down by tenancy type for each region and thus the figures in this table are an amalgam of 91 Act tenancy, 91 Act, Ltd Partnerships, Short Limited Duration Tenancy (SLDT) and Limited Duration Tenancy (LDT). It does however exclude crofts.

Figure 2.4 : Rents by region, JAC (2013)

Table 11a: Median, quartile and decile rents by category, 2013/14 (£/ac)

	10%ile	quartile	median	upperquartile	90%ile
Argyll & Bute	1.2	2.5	6.9	22.6	47.4
Ayrshire	2.2	9.7	30.4	48.5	65.9
Clyde Valley	2.7	13.0	29.8	45.2	65.7
Dumfries & Galloway	5.2	13.8	35.0	54.6	72.2
East Central	2.1	8.4	28.4	41.3	55.4
Eileanan an Iar	0.2	1.2	3.9	7.0	14.7
Fife	12.8	34.2	52.2	71.6	85.6
Highland	0.4	2.6	15.6	35.6	50.4
Lothian	12.0	34.0	56.0	73.5	99.7
NE Scotland	6.3	23.1	38.7	50.9	62.7
Orkney	7.2	16.9	31.0	50.1	61.6
Scottish Borders	4.8	15.3	41.6	59.6	70.3
Shetland	0.1	0.4	0.9	1.3	2.2
Tayside	2.7	14.0	40.5	62.7	77.2

June Scottish Tenanted Agricultural Land in Scotland, 2013/14

We would expect there to be a difference in the rent levels between the different tenancies in part because of the legislation but in the case of 91 Act agreements many will be equipped units with buildings and houses, and therefore one would expect the rents to be higher to reflect these elements. As these are average rents for all types of agreements we have considered if these figures in this table need to be adjusted to make them comparable to 91 Act rent levels.

The JAC survey does provide a national breakdown by tenancy type, as shown in

Figure 2.5 below, where as we would expect, there are significant variations in the rent levels between the different tenancy types. It appears therefore that the median rents for the regions are lower than they might be for a 91 Act tenancy.

Figure 2.5 : Rents by tenancy type, JAC (2013)

Table 11c: Median, quartile and decile rents by category, 2013/14 (£/ac)

	10%ile	quartile	median	upperqua	90%ile
Croft & SLA	0	0	1	3	6
91 Act LFA	2	7	20	35	49
91 Act non-LFA	9	38	51	63	75
91 Act Ltd Ptn	3	13	32	51	74
SLDT	3	17	42	62	86
LDT	4	15	40	56	77
Ssnl LFA same loc	5	14	42	65	94
Ssnl non-LFA same loc	5	24	57	80	109
Ssnl LFA different loc	5	6	10	61	110
Ssnl non-LFA different loc	3	6	44	148	303

The median rents for 91 Act LFA and non-LFA in

Figure 2.5 above, equates to £35/acre, whereas the median rents for the regions, in **Figure 2.4**, is £31/ha, a difference of 15%. The Smiths Gore database of rents shows a similar trend. This however is based on a much smaller sample size of rent reviews over the last two years where 91 Act lettings were 7% higher than the average for all agreements.

To ensure that the regional rents are more comparable to 91 Act tenancies when capitalising the rent, we believe some adjustment is required. Although the two breakdowns from the JAC survey suggest 15%, for the purposes of this report we believe it is better to be more cautious and have increased the regional rents by 10% so that they better represent the 91 Act rent level. These calculations are shown below in **Figure 2.6**.

Figure 2.6 : Rents used for calculations

	median £/ha	median £/ac	median £/ac + 15%
Argyll & Bute	17.0	6.9	7.5
Ayrshire	75.0	30.4	33.4
Clyde Valley	73.7	29.8	32.8
Dumfries & Galloway	86.4	35.0	38.5
East Central	70.2	28.4	31.3
Eileanan an Iar	9.7	3.9	4.3
Fife	129.0	52.2	57.4
Highland	38.5	15.6	17.1
Lothian	138.4	56.0	61.6
NE Scotland	95.7	38.7	42.6
Orkney	76.6	31.0	34.1
Scottish Borders	102.9	41.6	45.8
Shetland	2.2	0.9	1.0
Tayside	100.0	40.5	44.5

2.7 CAPITALISATION YIELDS

Ideally this would be based on evidence from the Scottish market. Unfortunately we have been unable to find any openly marketed sales of 91 Act tenancies. Although there have been some off market sales or deals between occupiers, these deals reflect the circumstances of the parties rather than being evidence of how the open market might perceive 91 Act investments. We are also aware of approaches taken by other valuers in valuing portfolios; however this is only one persons' opinion and are not market tested.

Due to lack of Scottish evidence, we have used sales from the market in England & Wales of property subject to the Agricultural Holdings Act 1986 (AHA 86). Although not the same as 91 Act, there are similarities in security of tenure with rights to two successions. Furthermore the valuation methodology is the same, based on capitalising rents, where the Market Value is significantly lower than the vacant value. Whilst this is not ideal, we believe this is superior to a subjective assessment and the nearest we can get to the real market. Notwithstanding this, some adjustments do need to be made which we consider in the next few paragraphs.

2.7.1 Number of successions

Although 91 Act tenancies have greater succession rights than AHA 86 agreements, investors in England and Wales make little differentiation for the number of successions remaining. This does have some logic, as, when deferring a future sum of money, the largest element of the discount comes in the initial years. Furthermore the longer the vacant possession is deferred the more important the current income becomes. However more importantly the locked up value, or difference between the vacant value and investment value comes back into play, as was explored earlier in paragraph 2.3 above. Thus if someone were on the first attempt to arrive at an investment value of say 20% of the vacant value, the market sees this as too much of a discount and will pay a proportion of this locked up value to reflect the potential for a deal to be done to unlock the vacant possession value. The net result is that once the end of a letting is deferred more than one generation, the valuation will be the similar, whether there are one or more successions remaining.

Nevertheless, if comparing two investments, there must be some differentiation between a property with and without unlimited successions. Therefore as there are greater succession rights in Scotland, we would value Scottish investments at a higher yield (i.e. lower multiple of the rent and thus lower value).

2.7.2 Repairing obligations

In the current market in England & Wales a considerable premium is placed on fully repairing leases where the rents may be lower but the obligations on the investor less. However analysis of yields suggests no differentiation, as shown below in **Figure 2.7**. It would appear therefore that the adjustment is already made in the rental income and we have therefore not made an adjustment for repairing obligations.

Figure 2.7 : Yields of AHA 86 based on repairs, Smiths Gore (2013/14)

	Max Yield	Average Yield	Min Yield
AHA All	**1.9%**	**1.3%**	**0.5%**
FRI	1.9%	1.3%	0.9%
Model	1.9%	1.3%	0.5%

2.7.3 Land quality

In England & Wales we have noted a premium seemingly placed on those holdings closest to the prime arable regions which are believed to have the strongest potential for rental growth and where investments can be made which will show a positive return. Conversely investments in more remote areas or of livestock enterprises tend to be at higher yields. Given that land quality in Scotland will be of more mixed and with some parts of much poorer quality due to topography and climate, we believe some adjustment needs to be made.

However in analysis we found very little differentiation in yields between farm types as is shown below in **Figure 2.8**. Whilst arable did have a low yield, pasture recorded the lowest yields. We suspect this reflects the limited number of sales, where because of the small sample, other influences coming into play, especially on some of the smaller units.

Figure 2.8 : Yields of AHA 86 based on use, Smiths Gore (2013/14)

	Max Yield	Average Yield	Min Yield
AHA All	**1.9%**	**1.3%**	**0.5%**
Arable	1.9%	1.3%	0.9%
Dairy Farm	1.9%	1.6%	1.2%
Mixed	1.8%	1.4%	0.9%
Mixed/Dairy	1.5%	1.5%	1.5%
Pasture	1.6%	1.2%	0.5%
Pasture/Minerals	0.9%	0.9%	0.9%
Wet Pasture	1.3%	1.2%	1.0%

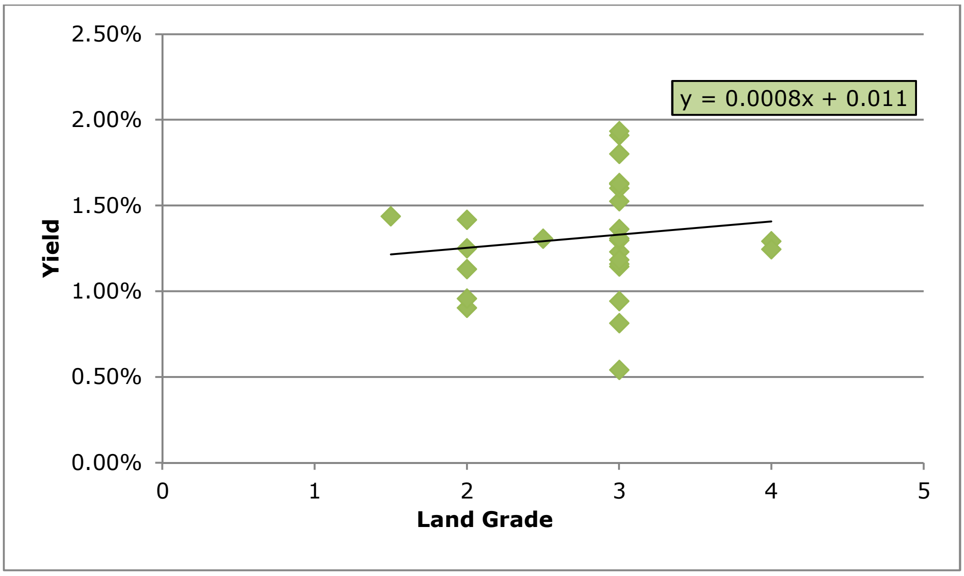
Given that we know investors do make this differentiation and we have observed this in the market, we believe some adjustment needs to be made. The JAC regional breakdown however does not give us this data and we have therefore approached this indirectly by using population density and remoteness, which we explore below.

2.7.4 Land Grade

As an alternative to the land use, we looked at land grading as is shown below. This did produce the expected return with the lowest yields being placed on the better land as shown in

Figure 2.9. Again, however, the differentiation is less than we expected but this is based on limited evidence and as can be seen most land is grouped within Grade 3.

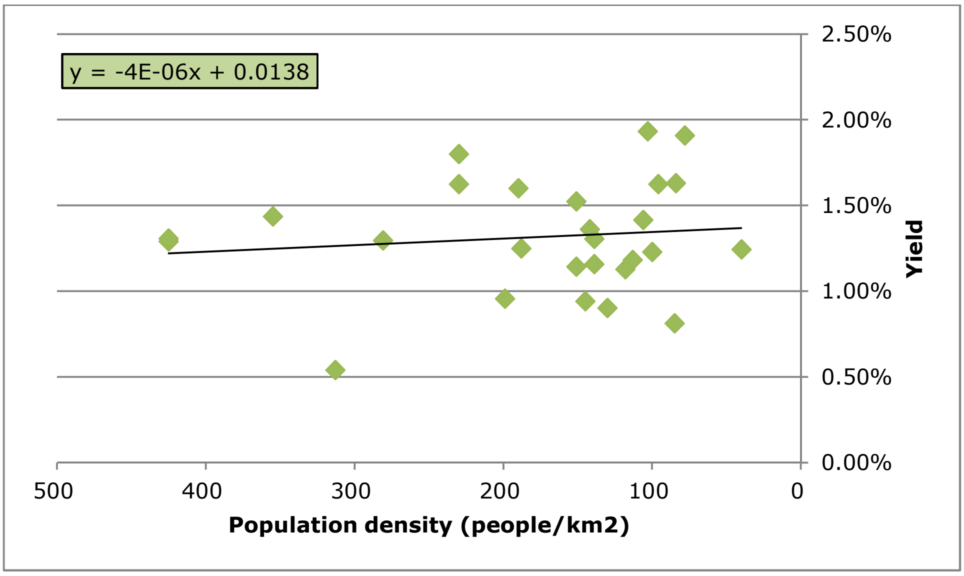
Figure 2.9 : AHA 86 Effect of Land Grade on yield, Smiths Gore (2013/14)



2.7.5 Remoteness

As an alternative to land grading and farm type, we have looked population density on the assumption that areas with lower population densities tend to have poorer quality farmland. This analysis is shown below in **Figure 2.10**, where a small there is a small correlation.

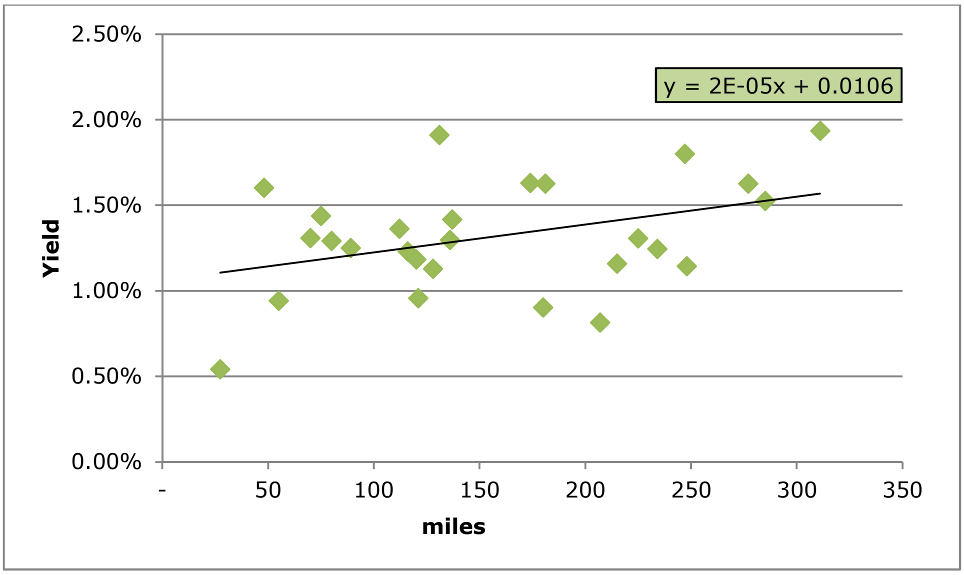
Figure 2.10 : AHA 86 Effect of population density, Smiths Gore (2013/14)



We have also looked at the pattern between distance from London which is shown in

Figure 2.11 below.

Figure 2.11 : AHA 86 Effect of distance from London, Smiths Gore (2013/14)



2.7.6 Conclusion on capitalisation yield

In considering the above it should be noted that the market evidence from England & Wales is from a small subsector of the market, and is based on limited number of transactional evidence. In the last two years we have recorded investment transactions of 7,300 acres based on 27 sales, compared to 100,000 acres of vacant land. Thus although the above trends have shown the patterns we expected, they have not been as marked as we, as valuers or investment advisers, would make in pricing an individual investment.

Our approach therefore has been to plot the above trend lines using the regional data we can tie in with the Scottish regions based on population and distance from Edinburgh. However as the differentiation was less than we would expect we have adjusted each region to reflect the spread of yields we would expect. We have also made an adjustment to reflect the greater succession rights that existing for 91 Act lettings by increasing the yield.

A summary of the results of these calculations is shown below in

Figure 2.12, with full details in **Appendix 1**.

Figure 2.12 : Capitalisation yields used

Region	Yield used
Argyll & Bute	1.86%
Ayrshire	1.57%
Clyde Valley	1.47%
Dumfries & Galloway	1.59%
East Central	1.54%
Eileanan an Iar	2.43%
Fife	1.49%
Highland	1.88%
Lothian	1.49%
NE Scotland	1.61%
Orkney	1.70%
Scottish Borders	1.58%
Shetland	2.47%
Tayside	1.58%

2.8 THE NATIONAL PICTURE

Combining the above evidence on average rents, the area of 91 Act agreements and capitalisation yields by region, suggests a value for all 91 Act tenancies in the order of £4.326 billion as is shown below in **Figure 2.13**.

Figure 2.13 : National value of 91 Act area - part 1

Region	Median Rent	91 Let area (ac)	Rent (£ million)	Yield	Value £/ac	Value (£ million)
Argyll & Bute	£ 7.55	232,286	£ 1.75	1.9%	£ 405	£ 94.08
Ayrshire	£ 33.39	87,655	£ 2.93	1.6%	£ 2,131	£ 186.79
Clyde Valley	£ 32.81	92,038	£ 3.02	1.5%	£ 2,234	£ 205.57
Dumfries & Galloway	£ 38.45	237,764	£ 9.14	1.6%	£ 2,418	£ 574.81
East Central	£ 31.26	113,952	£ 3.56	1.5%	£ 2,032	£ 231.51
Eileanan an Iar	£ 4.34	17,531	£ 0.08	2.4%	£ 178	£ 3.12
Fife	£ 57.44	35,062	£ 2.01	1.5%	£ 3,853	£ 135.09
Highland	£ 17.12	496,347	£ 8.50	1.9%	£ 912	£ 452.72
Lothian	£ 61.63	59,167	£ 3.65	1.5%	£ 4,129	£ 244.30
NE Scotland	£ 42.58	306,793	£ 13.06	1.6%	£ 2,653	£ 813.82
Orkney	£ 34.12	15,340	£ 0.52	1.7%	£ 2,008	£ 30.80
Scottish Borders	£ 45.79	208,181	£ 9.53	1.6%	£ 2,905	£ 604.68
Shetland	£ 1.00	24,105	£ 0.02	2.5%	£ 40	£ 0.97
Tayside	£ 44.53	265,157	£ 11.81	1.6%	£ 2,821	£ 747.87
			£ 69.59			£ 4,326.15

This however assumes that all tenancies have an eligible successor, which will not be the case. Holdings without a successor will have a higher value to an investor as the potential reversion will come into consideration in valuing the property.

Using the Dumfriesshire farm example from **Figure 2.1**, but in the alternative assuming there were no successors, the valuation methodology would change from capitalising the income in perpetuity to a 'term and reversion' basis. As is shown in **Figure 2.14**, this method is in two parts where the income is capitalised for the estimated remaining life of the tenancy, with the vacant possession reversion, net of tenants' improvements, deferred for the same length of time.

Figure 2.14 : Example Valuation of 91 Act with no successors

Dumfriesshire arable farm of 228.65 acres with large farmhouse.

Current rent of £14,400, reversion of £1.594,000
Estimated reversion in 15 years

Rent	£ 14,400			
	YP for 15 years @	3.00%	11.93794	£171,906
Reversion				
Vacant Possession value	£ 1,594,000			
	Present value deferred 15 years @	5.00%	0.48102	£766,741
Investment Value			£	**938,648**

Equates to a passing yield of 1.53%, or 59% of the vacant value

Thus as can be seen the value in this example increases from £774,053 to £938,648, equivalent to a 21% rise.

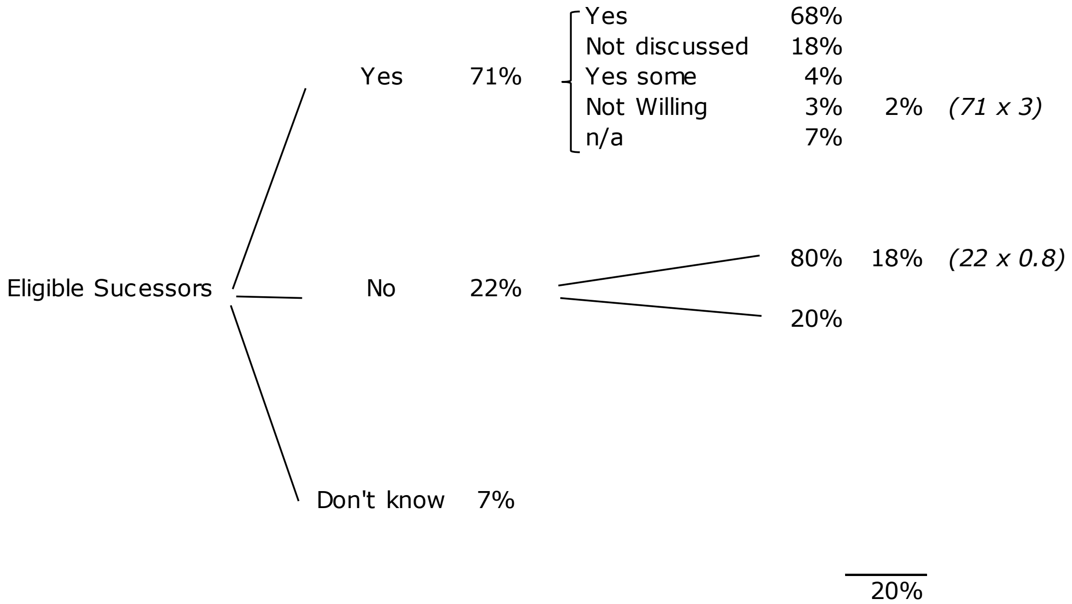
The value derived for the whole above is based on market evidence where there is one or more successors remaining and is the value assuming all agreements have potential successors. Thus some further adjustments are still required to account for properties without successors.

2.8.1 Calculating the share of holdings without a successor

We are aware from the Survey of Agricultural Tenant Farmers (June 2014) Figure 5.5, that 22% of respondents did not have a eligible successor, 71% did, with 7% saying either they did not know or that it was not applicable. In Figure 5.6 there was a further breakdown on the 71% who did have an eligible successor and in paragraph 5.17 a breakdown of the 22% who had an ineligible successor. We have used these results to calculate the percentage of holdings that do not have an eligible successor as is shown below in

Figure 2.15.

Figure 2.15 : Estimate of holdings without successors



We therefore split the total value in **Figure 2.13** into two, assuming that 80% have a potential eligible successor and 20% have not.

We have not taken into account the not applicable responses and "don't know" and therefore this estimate of 20% being ineligible may therefore be an underestimate.

2.8.2 Adjustments to the 20%

To value those tenancies without an eligible successor, we need to calculate the vacant value of these holdings and then value them on a term and reversion basis, similar to the example shown in **Figure 2.13**. However we are unable to calculate vacant values for the Scottish regions as there is no database of average vacant values. To estimate the vacant value we have assumed the value derived above for this 20% equates to around 50% of the vacant value. This therefore enabled us to carry out a term and reversion value, similar to the above example in **Figure 2.14**.

In addition we have also made a further adjustment to account for the age of tenants. As a tenant gets older, the more likely the market will increase its price in the expectation of the 91 Act tenancy coming to an end. This is reflected in the 'term and reversion' valuation method, whereby the vacant possession value is deferred for the projected life expectancy of the letting. Thus the older the tenant, the less the reversion is deferred and as a consequence, the higher the market value.

To estimate the projected life expectancy of this 20%, we broken this 20% down further according to the response shown on page 35, Figure 5.11, of the Survey of Agricultural Tenant Farmers (June 2014), reproduced **Figure 2.16** below. From the responses to the survey, the median farmer would retire at a little under 70 and have used this as the average retirement age.

Figure 2.16 : Expected retirement age without eligible successor

less than 60	5%
61-65	15%
65-70	27%
71 or more	18%
Don't know	11%
Never	24%

To estimate the age profile of tenants, we have also taken data from the Survey of Agricultural Tenant Farmers (June 2014), page 5, Figure 2.1, reproduced in **Figure 2.17** below.

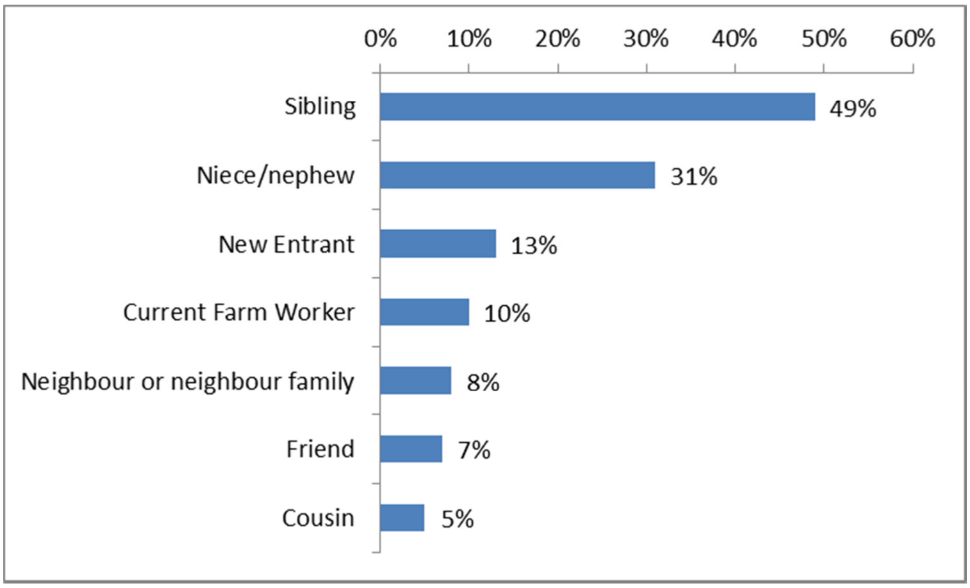
Figure 2.17 : Age groups of tenants

less than 40	7%
40-49	19%
50-64	41%
65 +	33%

2.8.3 Potential Succession

In order to be able to assess the effects of changes to the succession rights we have further subdivided this 20%, based on the response to the question "all who have a non-eligible successor who would likely to succeed or be assigned" (Figure 5.7, page 33) Survey of Agricultural Tenant Farmers (June 2014), as is reproduced in **Figure 2.18**.

Figure 2.18 : Identity of willing, non-eligible successors



This however adds up to more than 100% and we have therefore scaled the percentages back proportionally over 100%. Again this may underestimate the effect of the changes.

3.0 SCENARIOS

As a result of the various adjustments in Section 2.0 above we arrive at a national value of the freehold of properties subject to 91 Act tenancies based on the assumptions above of £4.666 billion. Details of this calculation are shown in **Appendix 2.0**.

This is our base value for considering the different options in the next sections.

3.1 SUCCESSION RIGHTS EXTENDED

3.1.1 Scenario

Whereby there is an extension of succession rights for 91 Act tenancies from the current 'near relative successor'. In other words the wider extended family and would therefore now include nieces, nephews, grandchildren or cousins.

3.1.2 Assumptions

We believe this will have two effects on values.

Firstly for those who are currently eligible and meet the new criteria, the valuation will change from a term and reversion to a capitalisation of income approach. The Survey of Agricultural Tenant Farmers (June 2014), reproduced in **Figure 2.18**, identifies the various categories of potential successors who could take on the tenancy but under the current rules are ineligible. In this scenario therefore Niece/Nephew and Cousin would now be eligible.

The second effect will be to the general investment market. Although many 91 Act lettings do have eligible successors in place, and we have used an estimate of 80%, circumstances do change and not all successors will necessarily opt to take up the succession. There will therefore be a natural loss which would now become more unlikely. The affect will be small but we believe some adjustment does need to be made to the overall market to reflect this. We have therefore adjusted the values for both the 80% and 20% by 5%.

3.1.3 Conclusion

This shows a limited reduction in value and is less than we expected. This is possibly because of the weaknesses of the data we are using and that we have tended to take a cautious approach to our values. Details of this calculation are shown in **Appendix 2.0**.

3.2 Unlimited Assignment

3.2.1 Scenario

Whereby an existing secure 91 Act agricultural tenant may be able to assign their lease for value to any person, with the same 91 Act rights continuing with the new tenant (without a landlord right of pre-emption but including suitable tests relating to the assignee).

3.2.2 Assumptions and methodology

In effect this means that the tenant has the perpetual right to assign the agreement and therefore a 91 Act agreement will never end. Although there will be some suitability tests on the assignee, experience from commercial property where there is assignment subject to reasonable consent, suggests that the tests will be relatively minor and have a high cost risk associated to opposition. There are also many candidates who in a marketing situation would be able to clearly show that they can meet the present criteria.

There is good evidence of the effect on value of unlimited assignment from the English and Welsh market. There are a number of lettings subject to the Agricultural Holdings Act 1986, where the tenant is a Company rather than an individual. As shares in the company can be sold on without triggering a change in the tenant, the tenancy never comes to an end. This would be very similar to this proposed scenario.

Evidence from sales of Company tenancies suggest yields are 0.75% to 1% higher than conventional AHA investments. If we apply this to the Dumfriesshire example farm from **Figure 2.1**, but in the alternative assume it is a Company tenancy, the value is decreased to 30% of the vacant value, a reduction of 36%, as shown in **Figure 3.1**.

Figure 3.1 : Example Valuation of 91 Act with perpetual assignment

Dumfriesshire arable farm of 228.65 acres with large farmhouse.

Estimated rental value £14,400, vacant value of £1,594,000

Current rent	£ 12,250				
Capitalise in perpetuity at		2.75%			
			36.364	£	445,455
Estimated Rental Value	£ 14,400				
Less current rent	£ 12,250				
Top Slice	£ 2,150				
Capitalise top slice in perpetuity at		3.75%	26.66667		
Defer 2 years at		3.75%	0.92902		
			24.77379	£	53,264
Investment Value				**£**	**498,718**

Equates to a passing yield of 2.46%, or 31% of the vacant value

3.2.3 Conclusion

This is the scenario that results in the greatest impact. The benefits in ownership are reduced to almost entirely its income as there is no realistic chance of an end to the lease. It becomes a low yielding investment that carries costs risks. If anything the value still looks too high however this does reflect at least a chance for gain to be taken as a result of a sale to the sitting tenant. Details of this calculation are shown in **Appendix 2.0**.

3.3 ASSIGNMENT WITH LANDLORDS PRE-EMPTION

3.3.1 Scenario

Whereby an existing secure 91 Act agricultural tenant may be able to assign their lease for value to any person with the same 91 Act rights continuing with the new tenant (with a landlord right of pre-emption and including suitable tests relating to the assignee).

3.3.2 Assumptions and methodology

This is a variation to the unlimited assignment in the previous scenario.

The pre-emption would at first sight suggest this is a way of the landowner recovering possession. However the landowner would need to match or outbid the purchaser of the tenant's interest.

Sales evidence for sales of leasehold interests comes again from the English market in the sales of the tenant's interest in a company tenancy. Our analysis of the evidence indicates that AHA leasehold interests are valued on a percentage of the vacant possession value for the reversion in the property locked up within the tenancy. AHAs by legislation have considerable security of tenure for the tenant. As the company's shares can be transferred without triggering an assignment or succession, this tenancy could continue in perpetuity. Therefore the tenant's interest is quite considerable and the landlord's interest is substantially reduced. Sales of company tenancies subject to AHA tenancies are very rare. The most recent evidence we can find comes from properties on Dartmoor where there are a number of properties which are either assignable Agricultural Holdings Act tenancies or assignable Assured Tenancies and attach below a summary of recent sales evidence

Figure 3.2 : Sales of assignable tenancies at market rent

	L's interest Passing Gross Yield	T's interest ex imp	Date Sold	Marketing months
The Hermitage, Postbridge, Dartmoor	2.89%	30%	Aug-12	15
Dunnabridge Pound Farm, Two Bridges, Dartmoor	2.50%	32%	Jan-13	27
Laughter Hole House, Dartmoor	2.67%	30%	Mar-12	11
Headland Warren, Postbridge, Dartmoor	1.62%	28%	Aug-12	18
Average	2.42%	29.89%		

If the value of the Landlords interest is 40% of the vacant value, and the tenant's interest 30%, this leaves 30% locked up.

3.3.3 Conclusion

The additional assignability clause on its own results in a significant fall in value of the investors' interest in a property as was the case in Scenario 3.2. Although the pre-emption puts in place a mechanism for the landlord to buy out the tenant, the value is no different to that if they were to compete in the open market for the tenant's interest without this pre-emption. Although the pre-emption may mean they are informed earlier, with such limited market activity it will be difficult to agree values, and may even mean landlords overbidding to prevent it going to the market.

There will however be cases where property has a marriage value to the landlords other interests. This could be because of its proximity to a property, that it creates a hole in the estate, or could be farmed more economically with other units. Thus this opportunity may have value and is why on occasion pre-emption clauses are agreed.

The benefits therefore are very small and for many of little or no value. Thus in applying an adjustment to the value at a national level is difficult and would adjust the reduction in value due to the assignably provision by a maximum of 5%.

Details of this calculation are shown in **Appendix 2.0**.

3.4 ASSIGNMENT TO A LDT

3.4.1 Scenario

Whereby an existing secure 91 Act agricultural tenant can assign their lease for value to any person (without the landlord having a pre-emptive right to buy), where the lease would convert to a limited term of 25 years.

3.4.2 Assumptions and methodology

The main effect of this change will be on the 20% of 91 Act holdings where there is no eligible successor. Rather than letting the tenancy lapse, they will be able to sell their interest to a 25 year LDT.

The motive for the tenant selling does not necessarily need to be to maximise their money but could be for personal reasons so as to pass the tenancy on to someone they would like to succeed to them. The Survey of Agricultural Tenant Farmers (June 2014), reproduced in **Figure 2.18**, identified a wide range of tenants who might like to succeed to them, which added up to 124%. Thus it would appear that there are more potential successors than tenancies available. Although not all of the tenants in the 20% might take up this option, it is likely a significant proportion might. In this scenario therefore we believe the valuation basis for the 20% would remain the same but with the term deferred for an additional 25 years. However at this length of deferment the locked up value would come back into consideration for the valuations since a 'term and reversion' extend by a further 25 years would produce a value well below 40% and thus the value would be the similar to the 80%. As a result, all of the age bands within the 20% will be valued on a capitalisation basis. Because a LDT for 25 years will be more attractive than a succession 91 Act, we have reduced the capitalisation yield on these.

The "for value" part of this scenario may also change some tenants' attitudes within the 80% part of the portfolio, since rather than gift the succession for free, they could sell for money a succession to a LDT, such as to top up their pension. We are aware from the JAC annual surveys that the area of 91 Act lettings has been falling 3-4% per annum, averaging 3.7% per annum between 2007 – 2013 based on the estimated area from the Scottish Agricultural Tenure Evidence Review. Although tenancies without successors will account for some of this fall, if only 20% do not have eligible successors, we estimate that they can account for a maximum of a quarter of this fall (0.9% out of 3.7%). Some will be due to Landlords buying out the tenant's interest or Landlords selling to tenants and thus this proposal will have little effect. Our conclusion is that although some within the 80% may opt to sell their agreement rather than transfer by assignment, because the LDT term is so long, the overall affect is marginal on values.

3.4.3 Conclusion

The ability to assign will mainly change the value of agreements where there is no successor. In all cases as the term is for 25 years, the fall in value for this group is significant and they will have a value similar to 91 Act agreements. However as there is a finite period on the letting, some of the loss will be mitigated. Details of this calculation are shown in **Appendix 2.0**.

3.5 ASSIGNMENT TO A RETIREMENT TENANCY

3.5.1 Scenario

Whereby an existing secure 1991 Act agricultural tenant can assign their lease for value to any person (without the landlord having a pre-emptive right to buy). Where the lease would have a duration equivalent to the pensionable age of the acquirer

3.5.2 Assumptions and methodology

This is very similar to scenario 3.4, assignment to LDT 25 years. Since the life expectancy of most farmers will be longer than 25 years, the effect on values will be the same if not more than a 25 year LDT for 25 years. Figure 5.11, of the Survey of Agricultural Tenant Farmers (June 2014), (**Figure 2.16**) indicated that the median farmer would retire at a little under 70, with an average age in the mid 50's (**Figure 2.17**), suggest that on average farmers will have another 15 years to retirement. If this is then added to the life expectancy of a next generation, this will defer the value well beyond 25 years.

Undoubtedly there will be some variations on this at an individual basis, but overall the affect will be similar to Scenario 3.5 and therefore have reported the same loss in value.

3.5.3 Conclusion

The loss is the same as for Scenario 3.4. Details of this calculation are shown in **Appendix 2.0**.

4.0 SUMMARY OF RESULTS

SUMMARY	Gain/Loss in millions					
	Main	< 40	40-49	50-64	65 +	TOTAL
Current Value						
+ Succession extended	(£ 173)	(£ 1)	(£ 6)	(£ 40)	(£ 64)	(£ 285)
+ Unlimited Assignment	(£ 1,152)	(£ 20)	(£ 68)	(£ 239)	(£ 301)	(£ 1,780)
+ Assignment pre-emption	(£ 1,036)	(£ 20)	(£ 68)	(£ 239)	(£ 301)	(£ 1,664)
+ Assignment to LDT	£ 0	£ 3	(£ 5)	(£ 103)	(£ 191)	(£ 297)
+ Assignment to Retirement interest	£ 0	£ 3	(£ 5)	(£ 103)	(£ 191)	(£ 297)

References

Smith Gore Research (2014) AHA 86 Investment Sales, *Smiths Gore database 2014*
Smith Gore Research (2014) Rent review survey, *Smiths Gore database 2014*

Scottish Government Social Research (2014) Survey of Agricultural Tenant Farmers, *Scottish Government Publications 2014*

Scottish Government (June 2014) Review of Agricultural Holdings Legislation Interim Report June 2014, *Scottish Government Publications 2014*

National Statistics Board for Scotland (2014) June 2013 Agricultural Census, *Scottish Government Publications 2014*

Abbreviations

JAC	June Agricultural Census
RESAS	Scottish Government's Rural and Environment Science and Analytical Services
SATR	Scottish Government Social Research

Regional Weighted Yield

based on Population and location

Weighting		
	Population	80%
	Distance	20%
		100%

Trend line co-ordinates	
Population	Distance
-4.00E-06	2.00E-05
0.0138	0.0106

Region	Population density (/sq km)	Rent (£/ac)	Distance from Edinburgh	Population density	Distance from Capital	Weighted Average	Adjust	Yield used	Comments
Argyll & Bute	12.5	6.9	130	1.38%	1.32%	1.36%	0.50%	1.86%	Move out yield for location
Ayrshire	110	30.4	90	1.34%	1.24%	1.32%	0.25%	1.57%	
Clyde Valley	366	29.8	50	1.23%	1.16%	1.22%	0.25%	1.47%	
Dumfries & Galloway	23	35.0	80	1.37%	1.22%	1.34%	0.25%	1.59%	
East Central	110	28.4	20	1.34%	1.10%	1.29%	0.25%	1.54%	
Eileanan an Iar	9	3.9	300	1.38%	1.66%	1.43%	1.00%	2.43%	Move out yield for location
Fife	272	52.2	30	1.27%	1.12%	1.24%	0.25%	1.49%	
Highland	8.8	15.6	160	1.38%	1.38%	1.38%	0.50%	1.88%	Move out yield for location
Lothian	248	56.0	15	1.28%	1.09%	1.24%	0.25%	1.49%	
NE Scotland	40	38.7	130	1.36%	1.32%	1.36%	0.25%	1.61%	
Orkney	20.8	31.0	350	1.37%	1.76%	1.45%	0.25%	1.70%	
Scottish Borders	24	41.6	45	1.37%	1.15%	1.33%	0.25%	1.58%	
Shetland	15	0.9	400	1.37%	1.86%	1.47%	1.00%	2.47%	Move out yield for location
Tayside	35	40.5	60	1.37%	1.18%	1.33%	0.25%	1.58%	

3.0 CURRENT VALUE				MARKET VALUE
Value of whole assuming succession		£ 4,326		
91 Act with successors				
80%	MV with likely successor	£ 3,461		
	Rent (millions)	£ 55.67	*passing yield 1.61%*	
Value of 91 Act with successors			*passing yield 1.61%*	**£ 3,461**
91 Act without successors				
Stage 1				
20%	MV with likely successor	£ 865.23		
	VP (millions)	£ 1,730		
	Rent (millions)	£ 13.92	*passing yield 1.61%*	

Reflecting ages

Age Bands	All	Values apportioned by age bands: less than 40	40-49	50-64	65 +
share	100%	7%	19%	41%	33%
Time to retirement at 70		30	25	14.5	5
VP (millions)	£ 1,730	£ 121	£ 329	£ 709	£ 571
Rent (millions)	£ 13.92	£ 0.97	£ 2.64	£ 5.71	£ 4.59

Reflecting succession issues

less than 40		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 0.39	23.85	£ 48.26	0.308	£ 24.13	50.0%
Niece/nephew	25%	£ 0.25	23.85	£ 30.53	0.308	£ 15.27	50.0%
New Entrant	11%	£ 0.10	23.85	£ 12.80	0.308	£ 6.40	50.0%
Current Farm Worker	8%	£ 0.08	23.85	£ 9.85	0.308	£ 4.93	50.0%
Neighbour or neighbour family	7%	£ 0.06	23.85	£ 7.88	0.308	£ 3.94	50.0%
Friend	6%	£ 0.06	23.85	£ 6.89	0.308	£ 3.45	50.0%
Cousin	4%	£ 0.04	23.85	£ 4.92	0.308	£ 2.46	50.0%
sub-total less than 40		**£ 0.97**		**£ 121.13**		**£ 60.58**	

40-49		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.05	20.60	£ 130.98	0.375	£ 70.83	54.1%
Niece/nephew	25%	£ 0.67	20.60	£ 82.87	0.375	£ 44.81	54.1%
New Entrant	11%	£ 0.28	20.60	£ 34.75	0.375	£ 18.79	54.1%
Current Farm Worker	8%	£ 0.21	20.60	£ 26.73	0.375	£ 14.46	54.1%
Neighbour or neighbour family	7%	£ 0.17	20.60	£ 21.38	0.375	£ 11.56	54.1%
Friend	6%	£ 0.15	20.60	£ 18.71	0.375	£ 10.12	54.1%
Cousin	4%	£ 0.11	20.60	£ 13.37	0.375	£ 7.23	54.1%
sub-total 40-49		**£ 2.64**		**£ 328.79**		**£ 177.80**	

50-64		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 2.27	12.90	£ 282.64	0.566	£ 189.37	67.0%
Niece/nephew	25%	£ 1.44	12.90	£ 178.81	0.566	£ 119.80	67.0%
New Entrant	11%	£ 0.60	12.90	£ 74.99	0.566	£ 50.24	67.0%
Current Farm Worker	8%	£ 0.46	12.90	£ 57.68	0.566	£ 38.65	67.0%
Neighbour or neighbour family	7%	£ 0.37	12.90	£ 46.15	0.566	£ 30.92	67.0%
Friend	6%	£ 0.32	12.90	£ 40.38	0.566	£ 27.05	67.0%
Cousin	4%	£ 0.23	12.90	£ 28.84	0.566	£ 19.32	67.0%
sub-total 50-64		**£ 5.71**		**£ 709.49**		**£ 475.35**	

65 +		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.83	4.78	£ 227.49	0.822	£ 195.72	86.0%
Niece/nephew	25%	£ 1.16	4.78	£ 143.92	0.822	£ 123.82	86.0%
New Entrant	11%	£ 0.49	4.78	£ 60.36	0.822	£ 51.93	86.0%
Current Farm Worker	8%	£ 0.37	4.78	£ 46.43	0.822	£ 39.94	86.0%
Neighbour or neighbour family	7%	£ 0.30	4.78	£ 37.14	0.822	£ 31.95	86.0%
Friend	6%	£ 0.26	4.78	£ 32.50	0.822	£ 27.96	86.0%
Cousin	4%	£ 0.19	4.78	£ 23.21	0.822	£ 19.97	86.0%
sub-total 65 +		**£ 4.59**		**£ 571.05**		**£ 491.30**	

Value of 91 Act without successors	**£ 1,205**
TOTAL VALUE	**£ 4,666**

3.1 SUCCESSION RIGHTS EXTENDED						MARKET VALUE
Value of whole assuming succession		£	4,326			
91 Act with successors						
80% MV with likely successor		£	3,288			
Rent (millions)		£	55.67			
Adjust	-5%					
Value of 91 Act with successors				*passing yield 1.69%*		**£ 3,288**
91 Act without successors						
Stage 1						
20% MV with likely successor		£	821.97			
VP (millions)		£	1,644			
Rent (millions)		£	13.92	*passing yield 1.69%*		

Reflecting ages

Age Bands	All	Values apportioned by age bands: less than 40	40-49	50-64	65 +
share	100%	7%	19%	41%	33%
Time to retirement at 70		30	25	14.5	5
VP (millions)	£ 1,644	£ 121	£ 329	£ 709	£ 571
Rent (millions)	£ 13.92	£ 0.97	£ 2.64	£ 5.71	£ 4.59

Reflecting succession issues

less than 40		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 0.39	23.85	£ 48.26	0.308	£ 24.13	50.0%
Niece/nephew	25%	£ 0.25	23.85	£ 30.53	Capitalise	£ 14.50	47.5%
New Entrant	11%	£ 0.10	23.85	£ 12.80	0.308	£ 6.40	50.0%
Current Farm Worker	8%	£ 0.08	23.85	£ 9.85	0.308	£ 4.93	50.0%
Neighbour or neighbour family	7%	£ 0.06	23.85	£ 7.88	0.308	£ 3.94	50.0%
Friend	6%	£ 0.06	23.85	£ 6.89	0.308	£ 3.45	50.0%
Cousin	4%	£ 0.04	23.85	£ 4.92	Capitalise	£ 2.34	47.5%
sub-total less than 40		**£ 0.97**		**£ 121.13**		**£ 59.69**	

40-49		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.05	20.60	£ 130.98	0.375	£ 70.83	54.1%
Niece/nephew	25%	£ 0.67	20.60	£ 82.87	Capitalise	£ 39.36	47.5%
New Entrant	11%	£ 0.28	20.60	£ 34.75	0.375	£ 18.79	54.1%
Current Farm Worker	8%	£ 0.21	20.60	£ 26.73	0.375	£ 14.46	54.1%
Neighbour or neighbour family	7%	£ 0.17	20.60	£ 21.38	0.375	£ 11.56	54.1%
Friend	6%	£ 0.15	20.60	£ 18.71	0.375	£ 10.12	54.1%
Cousin	4%	£ 0.11	20.60	£ 13.37	Capitalise	£ 6.35	47.5%
sub-total 40-49		**£ 2.64**		**£ 328.79**		**£ 171.47**	

50-64		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 2.27	12.90	£ 282.64	0.566	£ 189.37	67.0%
Niece/nephew	25%	£ 1.44	12.90	£ 178.81	Capitalise	£ 84.94	47.5%
New Entrant	11%	£ 0.60	12.90	£ 74.99	0.566	£ 50.24	67.0%
Current Farm Worker	8%	£ 0.46	12.90	£ 57.68	0.566	£ 38.65	67.0%
Neighbour or neighbour family	7%	£ 0.37	12.90	£ 46.15	0.566	£ 30.92	67.0%
Friend	6%	£ 0.32	12.90	£ 40.38	0.566	£ 27.05	67.0%
Cousin	4%	£ 0.23	12.90	£ 28.84	Capitalise	£ 13.70	47.5%
sub-total 50-64		**£ 5.71**		**£ 709.49**		**£ 434.86**	

65 +		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.83	4.78	£ 227.49	0.822	£ 195.72	86.0%
Niece/nephew	25%	£ 1.16	4.78	£ 143.92	Capitalise	£ 68.36	47.5%
New Entrant	11%	£ 0.49	4.78	£ 60.36	0.822	£ 51.93	86.0%
Current Farm Worker	8%	£ 0.37	4.78	£ 46.43	0.822	£ 39.94	86.0%
Neighbour or neighbour family	7%	£ 0.30	4.78	£ 37.14	0.822	£ 31.95	86.0%
Friend	6%	£ 0.26	4.78	£ 32.50	0.822	£ 27.96	86.0%
Cousin	4%	£ 0.19	4.78	£ 23.21	Capitalise	£ 11.03	47.5%
sub-total 65 +		**£ 4.59**		**£ 571.05**		**£ 426.89**	

Value of 91 Act without successors	**£ 1,093**
TOTAL VALUE	**£ 4,381**

3.2 UNLIMITED ASSIGNMENT				MARKET VALUE
Value of whole assuming succession		£ 2,886		
91 Act with successors				
80%	MV with likely successor	£ 2,309		
	Rent (millions)	£ 55.67	*passing yield 2.41%*	
Value of 91 Act with successors			*passing yield 2.41%*	**£ 2,309**
91 Act without successors				
Stage 1				
20%	MV with likely successor	£ 577.28		
	VP (millions)	£ 1,730		
	Rent (millions)	£ 13.92	*passing yield 2.41%*	

Reflecting ages

Age Bands	All	Values apportioned by age bands: less than 40	40-49	50-64	65 +
share	100%	7%	19%	41%	33%
Time to retirement at 70		30	25	14.5	5
VP (millions)	£ 1,730	£ 121	£ 329	£ 709	£ 571
Rent (millions)	£ 13.92	£ 0.97	£ 2.64	£ 5.71	£ 4.59

Reflecting succession issues

less than 40		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 0.39	22.40	Capitalise income		£ 16.10	
Niece/nephew	25%	£ 0.25	22.40	Capitalise income		£ 10.18	
New Entrant	11%	£ 0.10	22.40	Capitalise income		£ 4.27	
Current Farm Worker	8%	£ 0.08	22.40	Capitalise income		£ 3.29	
Neighbour or neighbour family	7%	£ 0.06	22.40	Capitalise income		£ 2.63	
Friend	6%	£ 0.06	22.40	Capitalise income		£ 2.30	
Cousin	4%	£ 0.04	22.40	Capitalise income		£ 1.64	
sub-total less than 40		**£ 0.97**		**£ -**		**£ 40.41**	

40-49		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.05	19.52	Capitalise income		£ 43.69	
Niece/nephew	25%	£ 0.67	19.52	Capitalise income		£ 27.64	
New Entrant	11%	£ 0.28	19.52	Capitalise income		£ 11.59	
Current Farm Worker	8%	£ 0.21	19.52	Capitalise income		£ 8.92	
Neighbour or neighbour family	7%	£ 0.17	19.52	Capitalise income		£ 7.13	
Friend	6%	£ 0.15	19.52	Capitalise income		£ 6.24	
Cousin	4%	£ 0.11	19.52	Capitalise income		£ 4.46	
sub-total 40-49		**£ 2.64**		**£ -**		**£ 109.68**	

50-64		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 2.27	12.48	Capitalise income		£ 94.29	
Niece/nephew	25%	£ 1.44	12.48	Capitalise income		£ 59.65	
New Entrant	11%	£ 0.60	12.48	Capitalise income		£ 25.02	
Current Farm Worker	8%	£ 0.46	12.48	Capitalise income		£ 19.24	
Neighbour or neighbour family	7%	£ 0.37	12.48	Capitalise income		£ 15.39	
Friend	6%	£ 0.32	12.48	Capitalise income		£ 13.47	
Cousin	4%	£ 0.23	12.48	Capitalise income		£ 9.62	
sub-total 50-64		**£ 5.71**		**£ -**		**£ 236.68**	

65 +		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.83	4.71	Capitalise income		£ 75.89	
Niece/nephew	25%	£ 1.16	4.71	Capitalise income		£ 48.01	
New Entrant	11%	£ 0.49	4.71	Capitalise income		£ 20.13	
Current Farm Worker	8%	£ 0.37	4.71	Capitalise income		£ 15.49	
Neighbour or neighbour family	7%	£ 0.30	4.71	Capitalise income		£ 12.39	
Friend	6%	£ 0.26	4.71	Capitalise income		£ 10.84	
Cousin	4%	£ 0.19	4.71	Capitalise income		£ 7.74	
sub-total 65 +		**£ 4.59**		**£ -**		**£ 190.50**	

Value of 91 Act without successors	**£ 577**
TOTAL VALUE	**£ 2,887**

3.3 ASSIGNMENT WITH LANDLORDS PRE-EMPTION					**MARKET VALUE**
Value of whole assuming succession			£ 2,886		
91 Act with successors					
80%	MV with likely successor		£ 2,309.11		
	Rent (millions)		£ 55.67	*passing yield 2.41%*	
	Adjust	5%			
Value of 91 Act with successors				*passing yield 2.30%*	**£ 2,425**
91 Act without successors					
Stage 1					
20%	MV with likely successor		£ 606.14		
	VP (millions)		£ 1,730		
	Rent (millions)		£ 13.92	*passing yield 2.30%*	

Reflecting ages

Age Bands	All	Values apportioned by age bands			
		less than 40	40-49	50-64	65 +
share	100%	7%	19%	41%	33%
Time to retirement at 70		30	25	14.5	5
VP (millions)	£ 1,730	£ 121	£ 329	£ 709	£ 571
Rent (millions)	£ 13.92	£ 0.97	£ 2.64	£ 5.71	£ 4.59

Reflecting succession issues

less than 40		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 0.39	22.40	Capitalise income		£ 16.10	
Niece/nephew	25%	£ 0.25	22.40	Capitalise income		£ 10.18	
New Entrant	11%	£ 0.10	22.40	Capitalise income		£ 4.27	
Current Farm Worker	8%	£ 0.08	22.40	Capitalise income		£ 3.29	
Neighbour or neighbour family	7%	£ 0.06	22.40	Capitalise income		£ 2.63	
Friend	6%	£ 0.06	22.40	Capitalise income		£ 2.30	
Cousin	4%	£ 0.04	22.40	Capitalise income		£ 1.64	
sub-total less than 40		**£ 0.97**		**£ -**		**£ 40.41**	

40-49		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.05	19.52	Capitalise income		£ 43.69	
Niece/nephew	25%	£ 0.67	19.52	Capitalise income		£ 27.64	
New Entrant	11%	£ 0.28	19.52	Capitalise income		£ 11.59	
Current Farm Worker	8%	£ 0.21	19.52	Capitalise income		£ 8.92	
Neighbour or neighbour family	7%	£ 0.17	19.52	Capitalise income		£ 7.13	
Friend	6%	£ 0.15	19.52	Capitalise income		£ 6.24	
Cousin	4%	£ 0.11	19.52	Capitalise income		£ 4.46	
sub-total 40-49		**£ 2.64**		**£ -**		**£ 109.68**	

50-64		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 2.27	12.48	Capitalise income		£ 94.29	
Niece/nephew	25%	£ 1.44	12.48	Capitalise income		£ 59.65	
New Entrant	11%	£ 0.60	12.48	Capitalise income		£ 25.02	
Current Farm Worker	8%	£ 0.46	12.48	Capitalise income		£ 19.24	
Neighbour or neighbour family	7%	£ 0.37	12.48	Capitalise income		£ 15.39	
Friend	6%	£ 0.32	12.48	Capitalise income		£ 13.47	
Cousin	4%	£ 0.23	12.48	Capitalise income		£ 9.62	
sub-total 50-64		**£ 5.71**		**£ -**		**£ 236.68**	

65 +		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.83	4.71	Capitalise income		£ 75.89	
Niece/nephew	25%	£ 1.16	4.71	Capitalise income		£ 48.01	
New Entrant	11%	£ 0.49	4.71	Capitalise income		£ 20.13	
Current Farm Worker	8%	£ 0.37	4.71	Capitalise income		£ 15.49	
Neighbour or neighbour family	7%	£ 0.30	4.71	Capitalise income		£ 12.39	
Friend	6%	£ 0.26	4.71	Capitalise income		£ 10.84	
Cousin	4%	£ 0.19	4.71	Capitalise income		£ 7.74	
sub-total 65 +		**£ 4.59**		**£ -**		**£ 190.50**	

Value of 91 Act without successors	**£ 577**
TOTAL VALUE	**£ 3,002**

3.4 ASSIGNMENT TO A LDT

					MARKET VALUE
Value of whole assuming succession		£	4,326		
91 Act with successors					
80%	MV with likely successor	£	3,461		
	Rent (millions)	£	55.67	*passing yield 1.61%*	
Value of 91 Act with successors				*passing yield 1.61%*	**£ 3,461**

91 Act without successors

Stage 1

20%	MV with likely successor	£	865.23	
	VP (millions)	£	1,730	
	Rent (millions)	£	13.92	*passing yield 1.61%*

Reflecting ages

Age Bands	All	Values apportioned by age bands: less than 40	40-49	50-64	65 +
share	100%	7%	19%	41%	33%
Time to retirement at 70		30	25	14.5	5
Plus 25 year LDT		55	50	39.5	30
VP (millions)	£ 1,730	£ 121	£ 329	£ 709	£ 571
Rent (millions)	£ 13.92	£ 0.97	£ 2.64	£ 5.71	£ 4.59

Reflecting succession issues

less than 40		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 0.39	33.17	£ 48.26	Capitalise	£ 25.33	52.5%
Niece/nephew	25%	£ 0.25	33.17	£ 30.53	Capitalise	£ 16.03	52.5%
New Entrant	11%	£ 0.10	33.17	£ 12.80	Capitalise	£ 6.72	52.5%
Current Farm Worker	8%	£ 0.08	33.17	£ 9.85	Capitalise	£ 5.17	52.5%
Neighbour or neighbour family	7%	£ 0.06	33.17	£ 7.88	Capitalise	£ 4.14	52.5%
Friend	6%	£ 0.06	33.17	£ 6.89	Capitalise	£ 3.62	52.5%
Cousin	4%	£ 0.04	33.17	£ 4.92	Capitalise	£ 2.59	52.5%
sub-total less than 40		**£ 0.97**		**£ 121.13**		**£ 63.59**	

40-49		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.05	31.42	£ 130.98	Capitalise	£ 68.76	52.5%
Niece/nephew	25%	£ 0.67	31.42	£ 82.87	Capitalise	£ 43.50	52.5%
New Entrant	11%	£ 0.28	31.42	£ 34.75	Capitalise	£ 18.24	52.5%
Current Farm Worker	8%	£ 0.21	31.42	£ 26.73	Capitalise	£ 14.03	52.5%
Neighbour or neighbour family	7%	£ 0.17	31.42	£ 21.38	Capitalise	£ 11.23	52.5%
Friend	6%	£ 0.15	31.42	£ 18.71	Capitalise	£ 9.82	52.5%
Cousin	4%	£ 0.11	31.42	£ 13.37	Capitalise	£ 7.02	52.5%
sub-total 40-49		**£ 2.64**		**£ 328.79**		**£ 172.61**	

50-64		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 2.27	27.13	£ 282.64	Capitalise	£ 148.39	52.5%
Niece/nephew	25%	£ 1.44	27.13	£ 178.81	Capitalise	£ 93.88	52.5%
New Entrant	11%	£ 0.60	27.13	£ 74.99	Capitalise	£ 39.37	52.5%
Current Farm Worker	8%	£ 0.46	27.13	£ 57.68	Capitalise	£ 30.28	52.5%
Neighbour or neighbour family	7%	£ 0.37	27.13	£ 46.15	Capitalise	£ 24.23	52.5%
Friend	6%	£ 0.32	27.13	£ 40.38	Capitalise	£ 21.20	52.5%
Cousin	4%	£ 0.23	27.13	£ 28.84	Capitalise	£ 15.14	52.5%
sub-total 50-64		**£ 5.71**		**£ 709.49**		**£ 372.48**	

65 +		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.83	22.40	£ 227.49	Capitalise	£ 119.43	52.5%
Niece/nephew	25%	£ 1.16	22.40	£ 143.92	Capitalise	£ 75.56	52.5%
New Entrant	11%	£ 0.49	22.40	£ 60.36	Capitalise	£ 31.69	52.5%
Current Farm Worker	8%	£ 0.37	22.40	£ 46.43	Capitalise	£ 24.37	52.5%
Neighbour or neighbour family	7%	£ 0.30	22.40	£ 37.14	Capitalise	£ 19.50	52.5%
Friend	6%	£ 0.26	22.40	£ 32.50	Capitalise	£ 17.06	52.5%
Cousin	4%	£ 0.19	22.40	£ 23.21	Capitalise	£ 12.19	52.5%
sub-total 65 +		**£ 4.59**		**£ 571.05**		**£ 299.80**	

Value of 91 Act without successors	**£ 908**
TOTAL VALUE	**£ 4,369**

3.5 ASSIGNMENT TO A RETIREMENT TENANCY				MARKET VALUE
Value of whole assuming succession		£ 4,326		
91 Act with successors				
80%	MV with likely successor	£ 3,461		
	Rent (millions)	£ 55.67	*passing yield 1.61%*	
Value of 91 Act with successors			*passing yield 1.61%*	**£ 3,461**
91 Act without successors				
Stage 1				
20%	MV with likely successor	£ 865.23		
	VP (millions)	£ 1,730		
	Rent (millions)	£ 13.92	*passing yield 1.61%*	

Reflecting ages

Age Bands	All	Values apportioned by age bands: less than 40	40-49	50-64	65 +
share	100%	7%	19%	41%	33%
Time to retirement at 70		30	25	14.5	5
plus retirment 30 years		60	55	44.5	35
VP (millions)	£ 1,730	£ 121	£ 329	£ 709	£ 571
Rent (millions)	£ 13.92	£ 0.97	£ 2.64	£ 5.71	£ 4.59

Reflecting succession issues

less than 40		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 0.39	34.76	£ 48.26	Capitalise	£ 25.33	52.5%
Niece/nephew	25%	£ 0.25	34.76	£ 30.53	Capitalise	£ 16.03	52.5%
New Entrant	11%	£ 0.10	34.76	£ 12.80	Capitalise	£ 6.72	52.5%
Current Farm Worker	8%	£ 0.08	34.76	£ 9.85	Capitalise	£ 5.17	52.5%
Neighbour or neighbour family	7%	£ 0.06	34.76	£ 7.88	Capitalise	£ 4.14	52.5%
Friend	6%	£ 0.06	34.76	£ 6.89	Capitalise	£ 3.62	52.5%
Cousin	4%	£ 0.04	34.76	£ 4.92	Capitalise	£ 2.59	52.5%
sub-total less than 40		**£ 0.97**		**£ 121.13**		**£ 63.59**	

40-49		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.05	33.17	£ 130.98	Capitalise	£ 68.76	52.5%
Niece/nephew	25%	£ 0.67	33.17	£ 82.87	Capitalise	£ 43.50	52.5%
New Entrant	11%	£ 0.28	33.17	£ 34.75	Capitalise	£ 18.24	52.5%
Current Farm Worker	8%	£ 0.21	33.17	£ 26.73	Capitalise	£ 14.03	52.5%
Neighbour or neighbour family	7%	£ 0.17	33.17	£ 21.38	Capitalise	£ 11.23	52.5%
Friend	6%	£ 0.15	33.17	£ 18.71	Capitalise	£ 9.82	52.5%
Cousin	4%	£ 0.11	33.17	£ 13.37	Capitalise	£ 7.02	52.5%
sub-total 40-49		**£ 2.64**		**£ 328.79**		**£ 172.61**	

50-64		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 2.27	29.29	£ 282.64	Capitalise	£ 148.39	52.5%
Niece/nephew	25%	£ 1.44	29.29	£ 178.81	Capitalise	£ 93.88	52.5%
New Entrant	11%	£ 0.60	29.29	£ 74.99	Capitalise	£ 39.37	52.5%
Current Farm Worker	8%	£ 0.46	29.29	£ 57.68	Capitalise	£ 30.28	52.5%
Neighbour or neighbour family	7%	£ 0.37	29.29	£ 46.15	Capitalise	£ 24.23	52.5%
Friend	6%	£ 0.32	29.29	£ 40.38	Capitalise	£ 21.20	52.5%
Cousin	4%	£ 0.23	29.29	£ 28.84	Capitalise	£ 15.14	52.5%
sub-total 50-64		**£ 5.71**		**£ 709.49**		**£ 372.48**	

65 +		**Rent**	YP Term	**VP**	VP Defer	**Value**	**% VP**
Sibling	40%	£ 1.83	25.00	£ 227.49	Capitalise	£ 119.43	52.5%
Niece/nephew	25%	£ 1.16	25.00	£ 143.92	Capitalise	£ 75.56	52.5%
New Entrant	11%	£ 0.49	25.00	£ 60.36	Capitalise	£ 31.69	52.5%
Current Farm Worker	8%	£ 0.37	25.00	£ 46.43	Capitalise	£ 24.37	52.5%
Neighbour or neighbour family	7%	£ 0.30	25.00	£ 37.14	Capitalise	£ 19.50	52.5%
Friend	6%	£ 0.26	25.00	£ 32.50	Capitalise	£ 17.06	52.5%
Cousin	4%	£ 0.19	25.00	£ 23.21	Capitalise	£ 12.19	52.5%
sub-total 65 +		**£ 4.59**		**£ 571.05**		**£ 299.80**	

Value of 91 Act without successors	**£ 908**
TOTAL VALUE	**£ 4,369**