LEASING SET TO GROW

Well, what a superb event the Vineyard & Winery Show was – well attended, well organised and with a buoyant, buzzy atmosphere.

It was heartening to see visitors so excited about the future and, while the topics under discussion were varied, one subject came up repeatedly – how the practice of leasing land is likely to become increasingly widespread in the sector.

Traditionally, it wasn't seen as an option. From a lessee's perspective, there was often a perceived lack of control. Why, they'd ask, spend money investing in a business if you don't own the freehold? Meanwhile, lessors might be reluctant to commit to an agreement that might span 25 years (or quite possibly longer), especially if they were more familiar with shorter-term farm business tenancies.

But the demand for land on which to plant vines is set to dramatically increase as newcomers enter the industry and existing grape growers and vineyard operators pursue economies of scale. There simply won't be enough land on the freehold market to satisfy this demand, so rented ground will fill the gap.

The reality also is that maximising financial returns might not be the sole – or even the main – driving factor for some viticulturists at present. But the industry will become more commercially minded and those focused solely on profit inevitably will ask: Why buy land for £14,000/acre or more, when I could lease it for £300/acre/annum?

Given that a vineyard operator may have to invest up to £20,000/acre establishing and managing the vines up to full production, leasing may potentially be the only route for those without access to large amounts of capital.

In today's volatile economic climate, landowners are increasingly seeking security, and the prospect of a guaranteed return over a long period is an appealing one. It's no different to letting a building or, indeed, any other part of a diversification portfolio. And the reality is, some people – for a host of good reasons – simply would never opt to sell ground, but would consider renting it out, especially given land used for viticulture can often make twice the £100-£200/acre typically paid for agricultural land under a farm business tenancy.

With almost record wheat prices currently, some might be reluctant to diversify, but that might change – and it might change quickly. Remember, too, that viticulture leases often include an annual, upwards-only rent review, sometimes tied to the CPI or the RPI, unlike FBT rents which can go down as well as up (that £150/acre for arable ground could come down if the wheat prices plummet!)

The terms of the lease have, of course, to be right for both parties. There is no point in either tenant or landowner having unrealistic expectations, and the truth is that if a deal doesn't work for both parties, it doesn't work at all. Viticulture doesn't really suit a FBT, so it should be a business lease, which means you can start with a blank sheet of paper.

But it's vital a lease is correctly structured and this means knowing what questions to ask, whichever side of the fence you are on. When I've been dealing with the intricacies of these arrangements, I've drawn heavily on my 25-plus years of experience of leasing land of all types.

Think about the here and now – but also the future. What are the long-term aspirations and plans of both sides, both business and personal? The landowner might need to consider inheritance tax issues, succession and the strategic development opportunities of the site or in the locality. The tenant should think about the site's potential for expansion.

It's also crucial that the lessor, if entering into a long-term arrangement, does a full background check on the would-be tenant and their financial situation before signing on the dotted line.

A properly worded lease covering all eventualities will, however, give both parties the security and confidence they need.

Alongside the popularity of leasing, another topic under discussion at the Vineyard Show was whether or not the extra production of grapes coming online as a result of the additional vine planting would result in an over-supply. The good news, however, is that English wine still only represents a tiny proportion of the total volume consumed in this country, so there is still a huge market there for the taking.

There will be much rationalisation in 2022, but this is an industry still in its ascendency. Much will change over the next 12 months. I look forward to discussing how those changes panned out for you at next year's Vineyard & Winery Show.

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