Why not invest in farm land?

CLM can help with investments in the low risk world of land ownership

Farmers are known to complain. If it's not the weather, it's the ruthless supermarkets not paying enough for milk or the countless rules they must obey before receiving annual subsidy payments. In truth, the last decade has been tough with margins from food production very low or even absent altogether. But despite this prolonged depression, land owning farmers are rarely, if ever, described as poor. In fact, quite the contrary. And the most striking evidence is that the majority of farm land is bought by farming neighbours expanding their own operations. Perhaps it's hardly surprising: farmers understand farming so presumably know what they're doing!

But an obvious question arises. If returns from farming have been under pressure for so long, why does the supply of land come no way near to satisfying demand?

To start, the process of letting and/or farming land is often less complicated than at first it might appear and there's the added advantage of very little bad debt in agriculture. In other words, tenant farmers pay their rent. And although returns on invested capital are relatively low — typically 1% to 3% — this is partially offset by the minimal risks associated with land ownership. This is reflected by low interest rates for capital borrowed for land purchase, typically less than 4% for a 10-year loan.

But other factors better explain why farm land is desirable. One of the reasons land owners rarely suffer serious financial hardship is because, in relative terms, they pay very little tax. So long as straightforward rules

MATTHEW BERRYMAN DIRECTOR OF CLM LTD

are followed and ownership is structured appropriately, land can be sold at a capital gains tax (CGT) rate of only 10%. Further, roll-over relief could be available, effectively reducing CGT to 0%. And for those with wealth to pass on, land can be transferred from one generation to the next without paying any inheritance tax whatsoever.

So, if you're in a position to invest consider, for example, who'll buy the land should you later decide to sell it. If there's no obvious purchaser, this might be one to pass by. What's the land best suited for and are there unrecognised opportunities such as development, mineral deposits, suitability for vineyard establishment?

Where to buy and how much to spend?

Some investors prefer to purchase near home so regular inspection is possible. Alternatively, specialist firms, like CLM, manage land for absentee owners; the company buys, sells and manages land all over the country from its offices in Sussex. Investments can start at around £50k but £1m+ makes much more sense. Agricultural land varies in price from £5k to £15k per acre. Ideally, parcels should be 100 acres or more.

In summary, investing in agricultural land can provide more opportunities than you might at first think. It's vital to thoroughly research and understand all aspects of what you're buying but as the nation perhaps moves closer to a new period of uncertainty, post-Brexit, land ownership could be more attractive than ever.

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- ***T: 07710765323***

E: matthew@c-l-m.co.uk

c-l-m.co.uk