

# CAAV

Professionals in the Countryside



## **Agricultural Valuation: EVS 2025 Guidance Note**

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# Agricultural Valuers

## CAAV: Professional Association

- UK-wide specialist professional association for those acting for and advising farmers, owners and others in the rural economy
  - Representing, briefing, qualifying agricultural valuers
  - Qualified Fellows are FAAV
- Representing practicality, not interests
  - Have to give the right advice to each client
- 114 years old with growing work and activity

# Valuation and Agriculture

- Valuation profession started with farmland
  - Often for taxation, for management
- Largest use by area of land in most countries
- Character varies by country and area
- Typically working for and advising individual owners, farmers, families
  - Often with long histories on the land
  - Also agri-business, investors, lenders, new owners,
- Ownership and use can be politically sensitive
- Facing substantial change

# Agriculture Across Europe



- Very varied types and structures
  - From Malta to Finland; Ireland to Ukraine
- Perennial crops to extensive livestock
- Agri-business to part-time small farms
- Subsistence, producing commodities, brand and added value to tourism and other business
- Very different national histories, laws, cultures
  - Increasing divergence within EU CAP and then UK, Switzerland, Norway, Ukraine have own policies, ...
  - Different land laws – for ownership and tenancy
  - Land reform, revolution, collectivisation, ...

# EVS 2025 - Agriculture



- Drafting is well advanced for its main section to be considered May's Bucharest Assembly
- Guidance Note on Agriculture was in EVS 2003 but not since
- Now to be included in EVS 2025
- Geopolitical risk, climate change, net zero policies, competition for land use, technologies, supply chains and markets create issues
- Blue Book to have a shorter Guidance Note
  - Longer Note with more issues on TEGOVA's website

# Blue Book Topics

- Introduction
- Application of European Valuation Standards
- Valuation Methodology
- Determination of a Property's Market Value

And then new developments

- Climate Change
- Technology, Data and Farmland

Finally

- Template EVS Agricultural Valuation Report

# Website Note Topics - 1

- The Nature of Agricultural Property
- Tenure, Occupation and Business Arrangements
- Agricultural Tenancies
- Other Business Structures
- Land: Bare or Equipped
- Specialist Buildings
- Land or Estate
- Pressures to Restructure; Other General Points

# Website Note Topics - 2



- Commonly Relevant Characteristics
- The Influence of Agricultural Policies
  - Support payments linked to land or not?
  - Other policies and controls?
- Other Sources of Value
- Likely Sources of Information
- Agricultural Crops and Other Assets
- Perennial Crops
  - Cost, net income over time, exit cost – land?
- Forestry



# Valuations Standards Apply



- As in all other sectors and circumstances, EVS1-5 apply to agricultural valuations
- EVS1 – Definitions and understanding of market value and market rent
  - Including assumptions and special assumptions
- EVS2 – Other bases of value
- EVS3 – The skilled valuer within competence
- EVS4 – The valuation process
- EVS5 – The valuation report

# Markets for Valuation



- Vary widely across Europe and within countries
- Are sales and lettings market active?
- Are sales and lettings markets transparent?
- How does national law/tax regulate ownership, land use, letting and sale, inheritance, ...?
- Is it food production from land or by high investment in facilities on land?
- Why does land have value?
  - Food production potential or other factors
  - Licences and permissions, contracts and water, ...

# Location and the Market



- Whole farms that can be run as a unit might have a wider market
- Smaller farms and land parcels might have most value to local farming buyers
  - To add to existing farms
  - Often when little land has been locally available
- So often a pattern of interlocking local markets
  - Within range for machinery and management
- What are characteristics of local buyers?

# Land and Business



- Unlike other businesses, farming uses land in its business
  - Seeds grow in land, fertility to be cared for, etc
  - Not just premises
- In some countries land is primarily valued for food production potential
  - In others, more factors are to be considered
  - Both need fixed equipment and buildings
- But some business is in buildings, glass houses, etc using land as location
  - Value in efficiency of buildings, contracts, etc

# Why Value?



- Many reasons for a sector largely of families
- Sale/purchase or lease (also during and at end)
- Business: creation, end or decisions
- Secured lending
- Inheritance, divorce, property disputes ...
- Statute – taxation, compulsory purchase, ...
- Insurance, damage assessment
- But also valuations for compensation and dilapidations on the end of a tenancy
- Values of crops, livestock, machinery ...



# Inquire and Understand

I keep six honest serving ,men

(They taught me all I knew)

Their names are What and Why and When  
And How and Where and Who.

Rudyard Kipling

*The Elephant's Child, Just So*

# Know the Farm and its Context



- Understand the farm
  - Its soils, topography, fixed equipment, buildings, etc
  - How should it be farmed?
  - What yields are expected with what costs and risks?
    - Could they be improved?
  - What permissions and limitations are relevant?
    - Water, produce contracts, access ...
  - What other uses might it have alongside or instead of farming
    - Development, tourism, energy, sporting, forestry, ...?
    - Environment, nature, carbon, water management ...?

# Know the Market



- Who might be the buyers?
  - How many might be interested?
  - Why might they buy?
  - Do they want extra land? Or starting farming?
  - Residential and other motives? New uses?
- Are there other sellers?
  - How competitive is the market?
- Do buyers need to borrow for this?
- How available is finance?
- Other recent transactions?



# Approaches to Valuation - 1



- Comparison and adjustment
  - Typically the best method, directly from the market
  - Based on actual transactions, closer in nature/time
  - Testing the balance of supply and demand for:
    - Different types and sizes of unit
    - Different types of farming potential
    - Different resources – buildings, dwellings, water, power, access to government and other schemes
  - Adjusting those prices to the property being valued
  - Needs a good knowledge of farms and markets
  - BUT not easy in all markets – lack of good data

# Approaches to Valuation - 2



- How to use an income method?
  - For land work from rents
    - Gross or net? with what rate? How secure?
  - Business work from sustainable profit
    - With what rate? With more risk?
    - What is the security of that profit?
    - Is that profit personal or transferable?
    - Will buildings last? Is contract durable or transferable
  - BUT agricultural rates often below bank rates
  - Values become very sensitive to chosen low rates

# Approaches to Valuation - 3



- Depreciated Replacement Cost
  - Unlikely for land but perhaps buildings
  - Especially specialist buildings: glasshouses, pig units
  - Perhaps other specialist enterprises
  - Based on cost, not value
- **Always a sense check at the end**
  - Would someone really pay the value assessed?
  - The more adjustments and arithmetic, the more precarious the figure
- The client will rely on the valuation to spend or make a commitment/decision or to avoid one.

# Developing Issues



- Risk, opportunity, resilience
- Geopolitical risk
- Changing supply chains and markets
- Competition for land use
- Climate change
  - Mitigation and Net Zero – reducing carbon and more renewable energy
  - Adaptation for more extreme weathers
- Environmental and nature policies
- New technologies

# Climate Change

- **Impact** - with volatile and extreme weather
  - Storms, flood, ...
  - Periods of extreme heat
  - Drought, wildfire, snow ... across the world
- **Mitigation** – emissions reduction
  - Changing practices, renewable energy, carbon sequestration, etc
- **Adaptation** – how to live with climate it
- What we do not mitigate we must adapt to
  - More change to come even if policies work

# Climate Change and Values?



- Living with change, so can be hard to see it
  - Creates risk and opportunities
  - No single answer – differing by property
- It can change the potential use of land
  - Some too hot for cereals; others now grow grapes
  - New income for property? Renewable energy, ...
- Will risks become too great for some?
  - Repeated flooding may change land use
- Supply chains - lenders, suppliers, buyers
- Political and market forces on land use

# Adaptation to Climate Change



- Risk reduction, resilience, opportunities
- Hot dry periods – water use, supply, storage
- Intense floods – ways to limit risk
- Storms, woodland, infrastructure, ...
- Soils – better soil health; protect from erosion
- New crops and opportunities
- New pests and diseases
- Adapting management – livestock, work, staff
- Impact on larger world food production

# Water – A Key Issue



- Water quantity
  - **Too much** - flooding, saturation of land, damage
  - Flood protection, drainage, water management
  - Natural measures to reduce flood risk
  - **Too little** – threat to farming, careful conservation
  - Permissions to take and store
  - Reservoirs, improved irrigation facilities, etc
- Water quality
  - Low flows see water reserves become salty
  - Risks to water supply and nature from farming run-off – nutrients, chemicals, ...



# Flooding



- We see more extreme rainstorms
  - First effects where rivers join
  - Then saturate land and surface water flooding
  - Damage/loss for crops, livestock, buildings, feed
  - Loss of soil, soil structure and nutrients
  - More problems with sea flooding
- Effects on value depend on markets
  - Tends to move land from arable to pasture
  - Winter flooding can benefit pasture
  - Value in flood storage to protect settlements?
  - Attitude of lenders and insurers

# The Facts of Environmental Deals

- What is being sold? At what price?
  - How fettered is the landowner?
- On what terms? Who has control?
  - How is change large/small then handled?
- For what price?
  - Capital or revenue? Tax consequences?
- What are the associated costs?
  - The agreement, monitoring and assurance
  - Associated promotional benefits?
- When to deal? Is it worth it?
  - What effect on the value of the land?

# Valuation of Woodland

- The ultimate perennial crop?
- What is its market?
  - Timber, amenity, shelter, ancillary to other activity
- For timber as an economic use
  - What are the species? What is their market?
  - How well are they established?
  - How well should they grow? – yield classes
  - How long till harvest? What costs and works?
  - What risks – fire, storm, disease, ...
  - How easy is it to fell and remove timber
- Amenity/environment – comparison

# Environment and Biodiversity



- Growing concern that society depends on nature
  - Risks to water and air quality, wildlife,
  - More controls over land use and farming practices
  - Water – for nature, for farming, for people?
  - Threat or opportunity?
  - Balance with food production
- How does this affect value?
  - There are environmental buyers in some markets
  - There can be opportunities in environment services
  - Better soils, bees, water management help farming

# Technology



- Technology and farming business
  - Useful to know it and be able to talk with clients
  - Relevant to farm economics
  - But might not directly affect land values
- Technology and property
  - The data from precision farming relevant to transactions - information for value
  - Automation in high value buildings
    - Glasshouses for horticulture, controlled environment farming, stores and packhouses, pigs and poultry, processing produce

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## Questions and Discussion

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