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## agriculture & natural capital roadshow scenario



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This is the scenario we will be working through at the roadshow today.

Larry the landlord is the freehold owner of the 1,700ha / 4,205ac Lion Estate, which includes three tenanted farms: T1 to Beefy Joe 150ha / 370ac, T2 to Phil Lamb 250ha / 620ac, and T3 to Rob Bacon 50ha / 125ac. The Estate also has a 250ha / 620ac in hand farm.

Larry's Estate covers most of both sides of the River Rift valley, from the source through to the town of Lionsgate, the remaining 1,000ha / 2,470ac is also tenanted.



Larry gets on very well with Beefy Joe who is a successful tenant, running a commercial beef and cereals enterprise. He is an owner occupier in his own right of 75ha / 185ac, with a 35-year Farm Business Tenancy commencing in 2020 on Agricultural Holdings Act terms (having been the successor to his father and done a deal with Larry). The farm he lets from the Estate is equipped and includes dwellings.

Phil Lamb is in his early 60s and in poor health, and has been a tenant on the Estate for 40 years. His daughter Belle (30), has farmed with him for all of her life. She still lives with her father in the main farmhouse. Phil is keen to retire and secure the farm for Belle. Phil farms sheep in an extensive way further up on the hill, his farm is well equipped and includes accommodation.

Rob Bacon is an outdoor pig farmer. He has farmed T3 since the 70s and is a bit of a headache for Larry. Rob is currently under investigation by the RSPCA, the Environment Agency, and Natural England for innumerable offences. Although there is a written tenancy agreement, it is not very detailed. The holding has deteriorated since Covid when Rob turned to gambling online. Rob has been late with the payment of his rent and has already been served with a Notice to Pay. Larry is worried about the state of the holding, his own liability for any actions of the tenant and he is very keen to get vacant possession of the holding.

Fred the Farmer is the owner occupier of the balance of the land in the Rift Valley, a round 100ha / 250ac. Fred sold an option 19 years ago to Developit for the expansion of Lionsgate with a term of 20 years (Development Land 2 on the Plan). No allocation has been made to date but it is looking likely when the local plan review is finalised, and permission is thought to be fairly certain but not for another couple of years. Developit want an extension of the term, but Fred suspects he could do better and would like to agree terms for using other land he owns (or other land in the Valley) to generate BNG and nutrient neutrality credits to support any development.

Larry and Fred are forward thinking business people with an interest in development on their land, and alternative farming opportunities. They successfully entered the Rift Valley into the competition for DEFRA's ELMs Tier 3 Landscape Recovery scheme, and are at the point at which they need to consider structuring.

Larry has an interest in development on his land, particularly an area adjoining Lionsgate within the land let to Beefy Joe (Development Land 1 on the Plan).

Larry's and Fred's development sites are a similar size, circa 10 hectares each and could accommodate up to 1000 dwellings, they stand a strong chance of gaining allocation in the forthcoming local plan review, and as such, planning permission is looking fairly certain but not for the next couple of years. Estimated returns based on current market values could see both landowners achieving land values of around £15 million each, should planning be secured.

Another developer, Greenscope, is looking to develop land in the area, including Development Land 1 and 2.

In its development plan, the Rift Valley local authority is requiring a 20% net gain requirement.

All the land within the Valley (other than Development Land 1 and 2) is targeted in a Local Nature Recovery Strategy Area. This means that it will obtain a higher diversity value on the statutory biodiversity metric.

The Estate is located in the catchment area of the River Rift Valley, which is identified as being "at risk" by Natural England in terms of Nutrient Neutrality.

## Dramatis Personae

Fred the Farmer	Owner occupier of F land. Sold option to Developit long ago	Needs money urgently
Larry the Landlord	Landlord of Lion Estate including T1, T2, and T3	Forward thinking and entrepreneurial, interested in development and natural capital on the Estate
Beefy Joe	Tenant of T1 land	Highly successful and well-funded enthusiastic farmer
Phil Lamb	Tenant of T2 land	Keen to retire early
Belle Lamb	Phil's daughter	Very successful up and coming sheep farmer and environmentalist
Rob Bacon	Tenant of T3 land and pig farmer	Rob turned to gambling online, holding in decline, recently served with a Notice to Pay rent
Developit Limited	Developer	Holder of Option over Development Land 2
Greenscope Developments	Developer	Looking to develop land in the area

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## CONCLUSION

### Lionsgate – what happened next?

After some very detailed tax planning and valuation work involving the parties' surveyors, and accountants...

Larry and Fred decide to transfer the non-development land into an SPV, on the basis that the upfront tax is "a price worth paying" for a robust structure which facilitates wider collaboration. Larry and Fred do retain a right of first refusal at market value in the event that the SPV decides to sell at a later date.

Rob agreed terms with Larry to surrender his farm at a mutually convenient date.

Phil and Belle agree a retirement succession with Larry, with no variation to the terms of the tenancy, but before the freehold is transferred to the SPV she then surrenders the land required for the Landscape Recovery scheme in exchange for her shareholding in the SPV.

Beefy Joe retains his tenancy but agrees to a variation of the terms in order to accommodate the objectives of the SPV, and receives his eventual shareholding to reflect the value of the change in terms.

Larry, Fred, Joe, and Belle enter into an SPV to deliver the Landscape Recovery scheme over the Lion Estate and Fred's land.

They are all directors, and shareholdings are split 40% each to Larry and Fred, and 10% each to Joe and Belle.

In order to provide Fred with some money up front Joe and Belle then buy half of Larry's shares between them.

Fred switches to an option agreement with Greenscale, and Larry also enters into an option agreement with Greenscale. Both enter into a collaboration and equalisation agreement covering their development land. The option and collaboration agreements provide that the BNG and NN requirements for the development are met by the SPV. The BNG and NN schemes are stacked on Rob's land following the cessation of the pig enterprise.

The parties then live happily ever after.

*The end.*