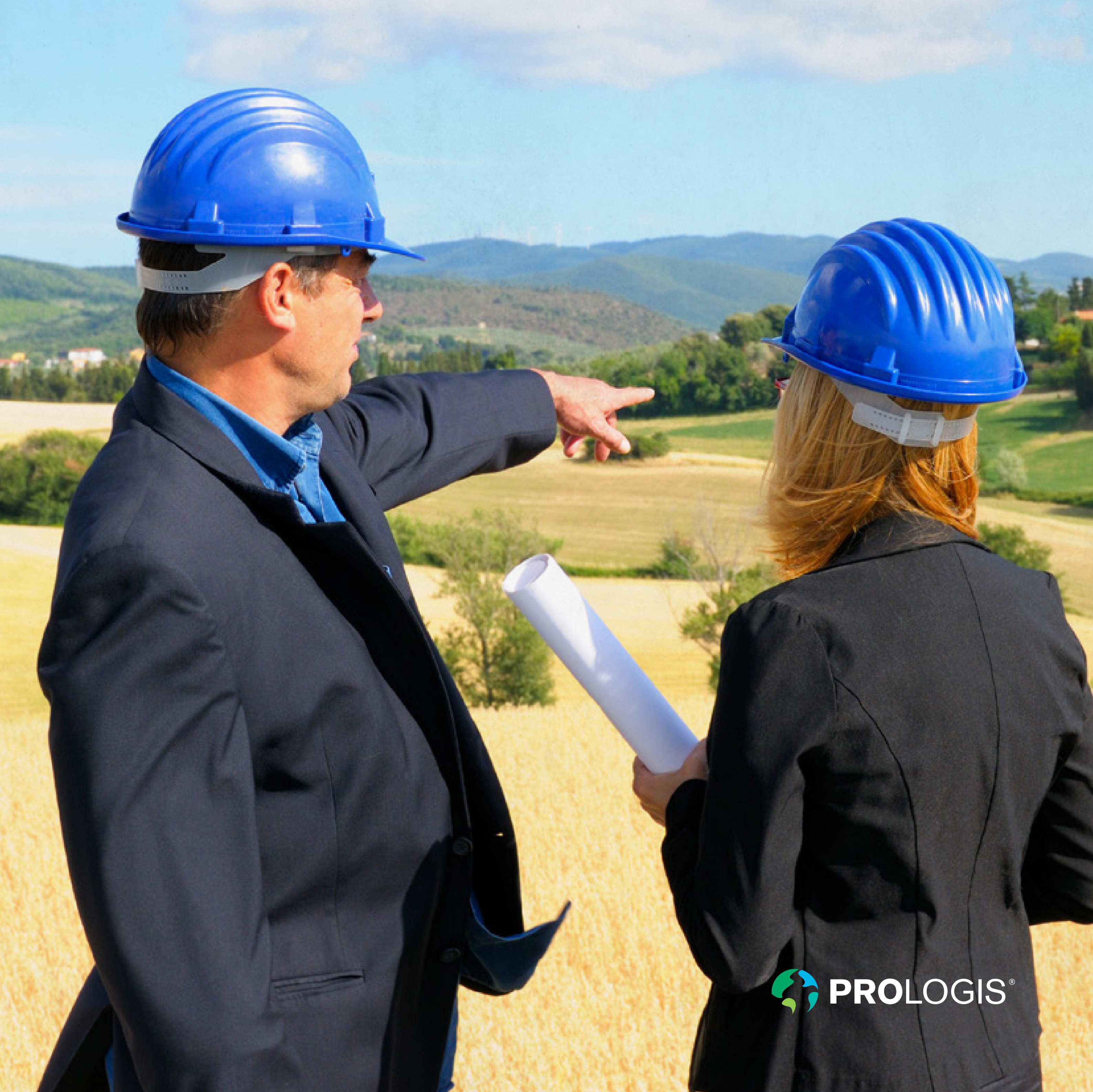
PLANNING PROMOTION: HELPFUL INFORMATION **FOR LANDOWNERS**



PROLOGIS®

OBTAINING THE BEST VALUE **FROM YOUR LAND**

According to new data from the Office for National Statistics in May, online sales, driven by COVID-19, accounted for 33.4% of all retail in Britain, a month-on-month growth of 19.7%; however, whilst people might make their selections in the virtual world, these goods have to be physically stored somewhere – preferably somewhere close to a major rail or road network or within easy reach of large cities like London or Birmingham, for example.

Mention the sale of land for development and most landowners will immediately think of housing development – which is not surprising given that a shortage of housing has seen developers paying good money for suitable sites. However, for landowners with land based close to large cities or towns or close to major motorway networks, there is another option.

Take a drive along any major motorway in the UK and you can't fail to notice the growing number of distribution centres flanking the carriageways. The rise of these industrial logistics buildings is being fuelled by a growing ecommerce sector, where consumers can have everything from pet food to electrical equipment delivered direct to their doorstep or place of work at the click of a button. So, whilst landowners with land on the outskirts of town and villages may be approached by residential developers looking to build new homes, landowners with land close to large cities and motorway networks might be approached by developers looking to build warehousing space in which to store goods ordered online.

Put simply, the more we shop online, the more warehousing space we'll need and the companies who build these warehouses are reliant on one thing to provide the space required: the right land, in the right location. And, with the industrial and logistics sector set to outperform both the office and retail markets over the next four years, it's likely that landowners in certain areas could well be negotiating with developers or land promoters looking for land on which to place distribution centres or logistics parks.

Although selling land to a developer can be highly lucrative and can seem like an attractive option for many landowners, it's important to arm yourself with the facts and seek professional advice to ensure the best outcome for everyone involved. After all, when you consider that the value of farmland, for example, can rise from £15,000 per gross acre to over £1,000,000 (per gross acre) depending on planning status, it pays to find the right party to team up with.

KEY **CONSIDERATIONS**

1

First and foremost, find experienced professional advisers: it's a false economy to try and deal with things yourself in the hope of avoiding fees. An experienced solicitor, land agent and accountant will ensure your position is protected and will help you work with a developer, promoter or property company to ensure the best outcome for everyone. When it comes to selecting professional advisers, word of mouth recommendations are invaluable and don't be afraid to ask your adviser to put you in touch with other clients they have represented so you can talk to them about their experience. Rounded advice could help you avoid costly mistakes and your development partner will often pick-up the fees as part of your agreement.

2

Arm yourself with the facts: the better you understand the planning process, the value of your land and the benefits and drawbacks of each option available, the more likely it is that you will be able to make an informed decision. In any instance, the value of your land will be directly related to its potential in terms of planning permission for some sort of development and land without planning permission will have less value to a developer than land which is supported by the planning process.

3

Work with a developer or property company with a reputation for success: In choosing a partner to work with, the fundamental question, above all others, should be how likely it is that the company in question will ensure your site is positively supported by the planning process. Work with a developer or property company who has a reputation for bringing forward quality sites for development and who is respected by local planners and politicians. Ask for details of sites they've developed and their success rate in bringing sites forward for development. You might also want to talk to local planning officials or other landowners who've had dealings with the company.

4

Make sure you understand the impact on your existing holdings: Unless you are selling-up completely or selling land some distance away from your day to day farming or land-related activities, it's important to think about how any development might impact your remaining holdings or your relationships with the local community. Depending on the route you take, it can be a number of years before any development happens on the land and it's too late to change your mind at that stage. Many partners cease to have an interest in the site once the buildings have been developed and sold on so it's important to understand the impact any development might have on your land and surrounding infrastructure.

5

One size doesn't fit all: whether it's best to sell your land without planning permission in place or go for an option agreement as part of a long-term financial plan will depend on a number of factors, including your personal circumstances and the ownership structure in place. It's always advisable to speak to your lawyer and accountant before making any decision so you can ensure your long-term interests and those of any business partners and dependents are protected.

THE DEVELOPER'S VIEW : ROBIN WOODBRIDGE, HEAD OF CAPITAL DEPLOYMENT, PROLOGIS UK

Selling land to a developer can be highly lucrative and is increasingly attractive to many landowners but not all developers are the same and it's important to understand exactly who you are dealing with and what to expect at each stage of the process. The thing that really drives land value is the site's planning status: put simply, land with planning consent or allocation is worth considerably more than land without any planning entitlement.

Obtaining planning consent requires a mixture of technical skill and strong relationships with local planning officials and politicians. At the end of the day, identifying a partner who can make good their promise to both the landowner and local government officials is what landowners should be aiming for. Whilst it's easy to be seduced by offers of up-front payment it's important to do your homework and find out which of your prospective development partners is more likely to get planning.

Much will depend on the status of the site to begin with as this will dictate the complexity involved in successfully bringing the site through the planning process. Green belt land, for example, is notoriously difficult to get allocated for any form of substantial development and we've recently seen land agents focus on up-front payments rather than working out the compelling argument for releasing the site for development. You need someone who is going to be honest with you from the outset about the likelihood of obtaining planning and have an agreement structured which protects you options should allocation be unsuccessful.

KEY **CONSIDERATIONS**

Regardless of whether you sell your land to a residential or industrial developer. When it comes to selling land, there are typically four options available and it's important to understand the process and the associated risk, time and costs involved with each.

OPTION 1

SELL THE LAND OUTRIGHT

+ You will receive the money immediately.

− You'll be selling at a lower price as the developer will take the risk of trying to obtain planning permission to bring the site forward for development.

OPTION 2

SELL THE LAND WITH UPLIFT (OR OVERAGE)

+ You can sell the land and receive the money immediately but you agree to have a share in any future increase in the value of the land if and when that increase occurs.

− This is a more complicated process and can often end in dispute unless clear written agreements have been drawn-up, dealing with every eventuality.

OPTION 3

PROMOTION AGREEMENT

+ The promoter has a vested interest in obtaining the most valuable planning permission and there should be no up-front costs.

− As the promoter is almost certainly not the final owner of the development, it is often more difficult to commit to the quality of the final scheme; thereby, having a direct impact on political support and the chances of obtaining planning consent.

OPTION 4

OPTION AGREEMENT

+ The agreement is made directly with the developer/final owner and they assume responsibility for all costs included in the process. The land value agreed is higher and the developer takes the risk of obtaining planning permission.

− The price is determined via negotiation, with referral to an independent third party if required. Thereby, the landowner is not given the opportunity to fully market test the pricing.

FAQ'S

HOW CAN I GET MY LAND INCLUDED IN THE LOCAL PLAN?

The Local Authority plan process operates on a 5-year rolling basis. The allocation of land for housing and commercial development is different and you would need to have a clear idea of what type of development you wanted to offer your land for. Local Authorities seeking land will often put out a 'call for sites' via their website and, if you know where to look and how to monitor for such announcements you could attempt to submit your site as part of a call for sites.

It is worth noting, however, that to influence the local plan process requires a sound understanding of national, regional and local planning policy and many landowners choose to work with a partner who can navigate this process for them.

SHOULD I OBTAIN PLANNING PERMISSION MYSELF?

In any instance, the value of your land will be directly related to what the land can be used for and land values increase significantly as they move towards full planning permission. Whilst it is possible to seek planning permission independently, the technical elements are now significant and the old days of a red line plan are now long gone.

Even a simple planning application can cost from £20,000 - £50,000 and large a development scheme can attract costs of up to £1,000,000 so it's not a task to be undertaken lightly. The main options for a landowner who decides not to seek planning permission themselves is an option or promotion agreement. In the case of an option agreement, the partner has the 'option' to purchase the site with the price being agreed (usually when planning permission is obtained) whereas, in the case of a promotion agreement, the site is ultimately sold to the highest bidder.

WHAT'S A PROMOTION AGREEMENT?

A land promoter (who will not usually be a developer) identifies sites and works with the landowner to 'promote' the land for development, within the planning environment. In practical terms, this means the promoter taking steps to assess the suitability of the site, producing plans and liaising with the local authority to encourage the allocation of the land for development and then obtaining planning permission before then directing the landowner to sell the site to a third party. The costs of 'promoting' the land, and so the risk, are borne by the promoter in the first instance but are then repaid when the land is subsequently sold to a third party. How the remaining sale proceeds are split between the landowner and promoter is a point for negotiation, but promoters will expect to receive a fair 'cut' of any sale proceeds as a reward for taking on the risk, which is largely equivalent to a share of the sale proceeds, net of costs, awarded to an option buyer. As with options, a minimum land price is often stipulated.

The key advantage to a landowner is that their interest is wholly aligned with the promoter to get the best price possible for the land. The landowner may wish to have a more active role in monitoring or assisting the promotion process but has no obligation to do so and so need not risk its own funds in the process.

Promoters use promotion agreements as they do not need to buy the land themselves or carry out the development at the end but can use their expertise to add value and earn a good promotion fee.

Landowners should be aware that they may be unable to sell the land during the term of the promotion agreement and should also be aware of any potential tax consequences which arise from the resulting 'partnership' which this agreement creates.

FAQ'S

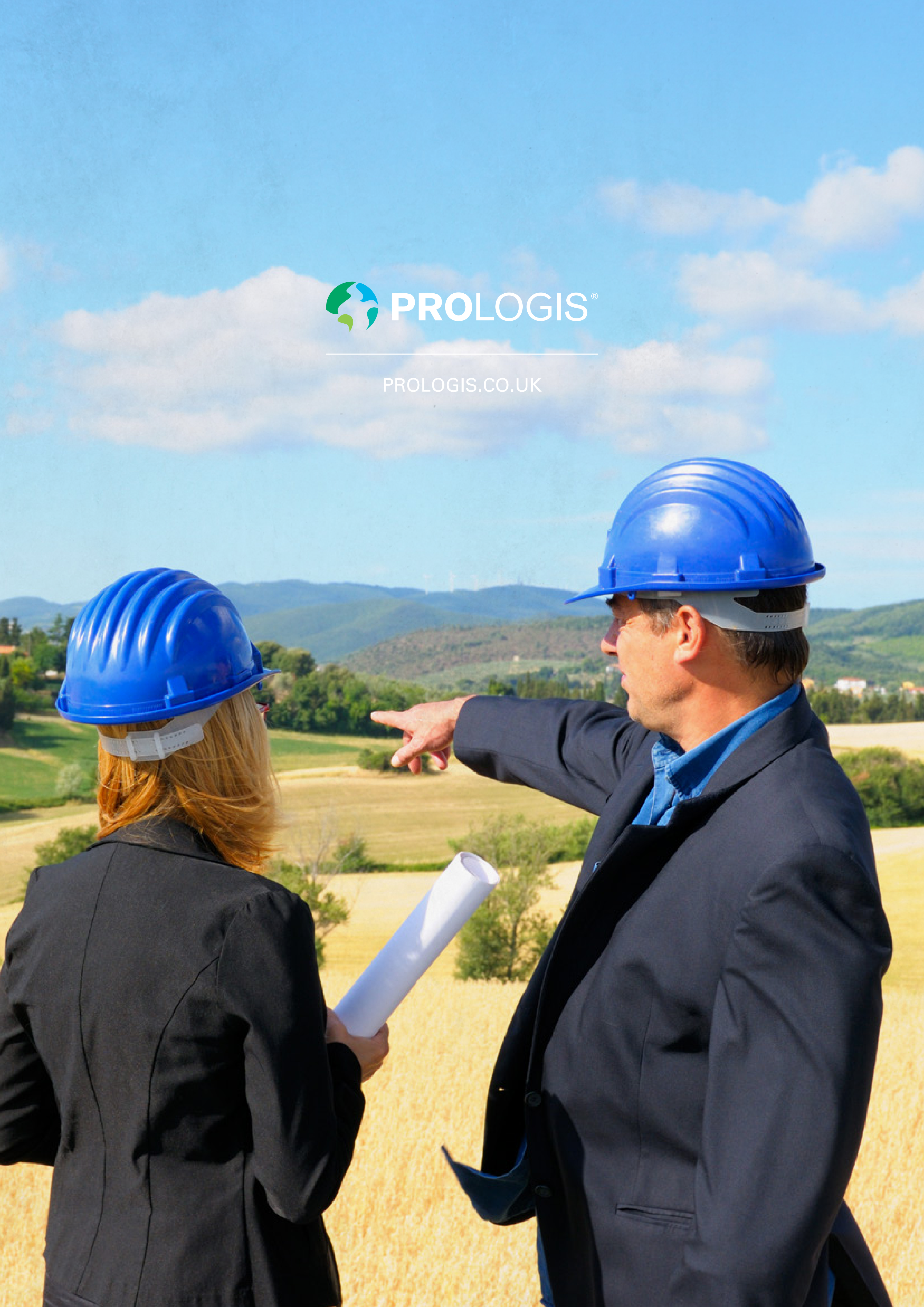
WHAT IS AN OPTION AGREEMENT?

This is a right which a landowner grants to a developer to 'opt' to buy the land from the landowner within a given period. In this context the developer generally agrees to apply for planning permission (which they do at their own cost and risk) and, in most cases, the option is in limbo until permission is granted. If the permission is deemed satisfactory, then the developer can 'exercise its option' to buy the land, at which point the landowner is contractually bound to sell to the developer, at the price which is agreed, or assessed by a third party if not agreed.

Usually that price is at a discount to its market value (and after deduction of the developer's planning costs and the option fee and any costs it paid initially) to reward the developer for the risk it took in applying for planning permission at its own cost.

CAN THE LAND BE FARMED OR USED WHILE IT IS UNDER AN OPTION AGREEMENT?

Normally, you can continue your usual activities and receive income from the land under an option agreement or a promotion agreement. However, any changes to different uses, or to allow lettings, would require specific negotiation.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