

# PROPERTY UPDATE

## Residential Barn Conversions...

SWORDERS – RURAL CHARTERED SURVEYORS

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## WELCOME...



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Welcome to our latest property update, which looks at the ins and outs of exploiting barns for residential conversion. Whilst there are a range of uses to which barns can be put, for many a valuable residential planning consent is the 'holy grail'.

A major consideration in any conversion project is, of course, the planning framework. For many Local Authorities this has changed significantly in the last 18 months, with projects once considered acceptable now requiring a careful evaluation of tactics in order to succeed.

However other issues are also of key importance – what is the role of third party developers? Should you consider entering into an option agreement to offset the ever increasing (and speculative) costs of achieving a planning consent? Our centre spread article considers the pitfalls and opportunities.

You should also carefully consider your tax position before embarking on any conversion scheme – adding value through planning only to see it being handed over to Gordon Brown is not a situation in which you would want to find yourself. As always, an early consideration of these issues can help frame an overall strategy.

Finally, for those of you lucky enough (although you may view it differently!) to be custodians of Grade II\* or even Grade I listed buildings there are special considerations which need to be taken into account. ■



## Converting Barns Planning Update

**For the last 10 years obtaining planning consents for the change of use of barns to residential has been relatively straightforward, however it is now considerably more challenging.**

Many Local Authorities are now tightening change of use policies in view of national guidance that seek to control car dependent residential development. Ironically however, at the same time Local Authorities are also seeking to prioritise other (often more car-intensive uses) over residential use.

Both Uttlesford and East Herts have seen recent changes in their policies on converting barns for residential uses. Uttlesford now wish to see any barns marketed for at least 6 months for alternative uses before any consent is granted for residential, and East Herts are now proposing a similar marketing requirement, but over 12 months. In addition, Uttlesford are seeking to resist the conversion of barns to residential if they are more than 3km from a defined settlement, although it remains to be seen how they intend to resist residential applications on listed barns beyond 3km given the presumption in favour of finding a viable use for these buildings.

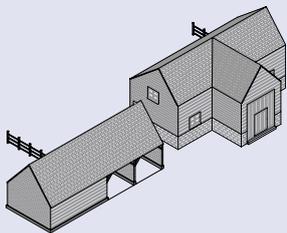
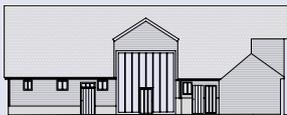
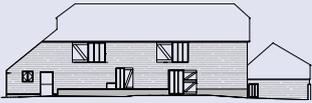
Epping Forest have also adopted a new Local Plan, and although there is no requirement for marketing there is a threat that a contribution to affordable housing will be required from schemes.

Epping Forest also have continuing concerns over the sustainability of residential conversions

in the countryside. Where barns are listed there is a clear presumption in favour of an alternative use which helps to overcome this concern, however where there is some debate as to the desirability of retaining barns in terms of their historic interest, different approaches, including live/work, can reap dividends.

What remains of importance across all districts is to consider in detail any site-specific factors which can be used to overcome any concerns and also maximise potential. Where modern utilitarian buildings need to be removed as part of the scheme there might be a greater opportunity for new build cartsheds for parking or other ancillary uses.

Across the board there are increasing requirements for detailed information to be submitted with applications, including bat surveys, newt surveys, structural surveys and detailed drawings of timber frames. This adds to the cost of submitting an application however Sworders continue to be able to offer a performance based fee which considerably reduces your outlays in the event that the application is not successful. We are more than happy to offer a no-obligation overview of any opportunities you may have and also to consider whether there are any issues (such as tax planning) which need to be taken into account before you embark on seeking a change of use consent. ■



# Maximising Value

Many of you still have barns and traditional buildings which have valuable potential for redevelopment but you may not have the time, inclination or finances to pursue development opportunities yourself. If you have planning already what should you consider if you are approached by a developer about a possible 'off-market' sale of your buildings? And if you don't have planning and have been offered a 'subject to planning' or 'option' deal what should you be aware of?

## SELLING BARNs WITH A PLANNING CONSENT

The key issue with private deals is that the market has not been tested. Although your developer might be able to show that after conversion costs and his profit the price he is offering you seems sensible these costs and profits vary considerably, as do assessments of end value, which means there could be several other developers who are prepared to pay significantly more.

In terms of differences in assumptions the following simple example outlines how two developers can come to very different assessments of value.

**\*1** Finished values are very difficult to predict to within 10% either way, even when you can see plans of the proposed converted barn.

**\*2** Predictions about how the market will move over the next 12 – 18 months cover a wider range than that used here but this illustrates the effects of relatively modest differences of plus or minus 10%.

**\*3** Conversion costs – we have had quotes from £65 per square foot to over £200 per square foot – so a plus or minus 10% difference is quite a narrow band.

So minor and quite reasonable differences in just three assumptions can have a very significant impact on the value of the unconverted barns.

However, where a development is close to your own house it is important that you are comfortable with the buyer and if that is one of the primary considerations then a private deal may be the most sensible way forward. But it may be possible to shortlist a number of developers that you are comfortable with and conduct a restricted marketing campaign. Of course if you are merely looking to maximise value we would suggest that the best way forward is to approach the market.

Putting aside our firm belief that instructing an agent is the best thing to do (although of course we would say that!), subject to knowing the level

	Low End Reasonable Assumptions	High End Reasonable Assumptions
Estimated current value if converted (*1)	£900,000	£1,100,000
Estimate of converted property value in 12 – 18 months (*2)	£810,000	£1,210,000
Less estimate of conversion costs *3	£550,000	£450,000
Maximum price builder prepared to pay	£260,000	£760,000

of offer received, Sworders may well be prepared to take on the instruction on the basis that no fee be charged unless the level of offer you have received is exceeded.

When we market barns, we often approach the market on a private treaty basis with a conservative guide price to generate significant interest and conclude the sale by calling a private auction comprised of those parties who have made offers on the property.

In another recent case, because of the close proximity to the house (which the Vendor was retaining) we concluded the sale by private negotiation with a number of parties all of whom were thoroughly vetted by the vendor. However on several occasions we have managed to sell barns close to the vendors retained house and still conclude these by private auction, by carefully selecting those chosen to attend.

The difficulty with private sales is that the buyer knows that they are not competing with anyone else and therefore are in control of the sale process. Whilst every developer will talk a good game and will confirm that they are in funds are ready to proceed such is often not the case and once you are 'on the hook' it can often be difficult to resist changes to the terms agreed, which in our experience can inevitably follow. If they do rush to exchange then it probably suggests that they consider they have negotiated a bargain!

In one case we dealt with a local builder had tried to persuade the Vendor to sell these to him privately beforehand. The Vendor told the builder that our advice was to go to auction and the builder stated categorically that he would withdraw his offer and would not attend the auction.

The following month we sold the barns at auction at well above the builders offer price. Of the 14 registered buyers, the successful purchaser was in fact the very same builder who had said he wouldn't pay a penny more nor indeed even attend the auction. He in fact paid 52% more than his original offer.

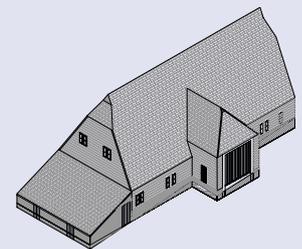
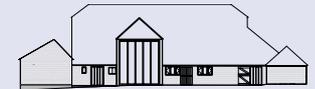


#### SUBJECT TO PLANNING & OPTION AGREEMENTS

If your barns don't have planning consent a deal where the developer pays for the planning work to be done could seem like a good idea – especially as spending money on applications might be money down the drain if you get a refusal. However, the cost of this will either be reflected in the pre-agreed purchase price (which brings you the same problems as private deals on barns that already have a planning consent – see above) or in the case of an option without a pre-agreed price leave you exposed to ever increasing 'allowable costs' and a valuation mechanism that will almost certainly undervalue your asset, owing to the way that valuations are carried out.

Sworders are often happy to work on a performance basis whereby we don't charge for our time unless we get you a consent, and if you intend to sell the barns once you have consent we can often wrap up the planning fee until you receive money from the sale. Granted, there will be costs like the planning fee, an independent structural survey and having the buildings accurately measured, however these costs are relatively minor compared to the total cost of putting in a planning application (including the drawings, which we do in house) and of course the potential extra value from not being tied to one purchaser.

So if you are offered a private deal, a subject to planning arrangement or an option it is worth considering what the alternatives might be. We are more than happy to provide a no-obligation view as to what we think would be the best way to meet your objectives. ■



All photographs and drawings are of projects undertaken by Sworders

BEFORE



AFTER



Piccotts Farm Barns, planning and sale undertaken by Sworders, conversion by Pocknell Studio

# Listed Barns

With Grade II listed barns there are generally few obstacles to a residential scheme, in fact historic importance can assist with a change of use proposal as the preference is to find viable uses for listed barns.

However, if your barns are listed Grade II\* or I the scope for conversion is more restricted and the overall scheme may require an innovative approach to release meaningful value.

With Grade II\* and Grade I listed buildings English Heritage will be a consultee on any proposals and they will wish to see the preservation of the historic structure with minimum alterations. Whilst there may be some room to compromise on Grade II\* listed building, perhaps converting one or two bays in a larger barn and leaving the remainder 'untouched', with a Grade I listed non-residential building the scope is very limited. In these situations it may be more productive to focus on enabling development which can release capital for the long term maintenance of the historic building



by obtaining planning consent for development that wouldn't normally be permissible.

All listed buildings must be kept in a reasonable standard of repair, however English Heritage are particularly concerned about the maintenance of Grade II\* and Grade I listed buildings. Whilst there are grants available, there is a severe shortfall in funding and grants are restricted to those buildings on the 'At Risk' register. Successful grant applications carry a requirement for public access when the works are completed and are generally focused on buildings where there is no prospect of a self-funded solution to their future maintenance. Of course Local Authorities can serve repairs and urgent works notices to ensure owners keep buildings maintained.

In short, the cost of maintenance associated with Grade II\* and Grade I listed buildings generally falls on the owner, with little help available from alternative sources. So where important buildings are facing costly maintenance it is vital to consider what the options are for alternative uses across the site as a whole to avoid an asset becoming a liability. ■

# Taxing Issues

A little bit of advance tax planning when it comes to barn conversions can be invaluable.

With the advent of Business Asset Taper Relief a relatively low rate of Capital Gains Tax (CGT) is possible if the barn was used as a business asset in the period prior to disposal.

If you are considering developing the barns unfortunately Business Asset Taper Relief on the gain is likely to be disallowed once the 'owner' becomes a 'developer'. Also, as a developer you are likely to be taxed on an Income Tax basis and lose your annual exceptions from CGT. As the annual exemption is currently £8,800 per individual and the ownership of a set of barns can be shared amongst several

family members the importance of forward planning can be appreciated.

Historic base values or transfer values also become important and therefore long before you intend to get planning and sell, if there are any inter-family transfers being considered it is important to look at the wider picture and consider future implications of transfer values.

Where a sale is considered the inheritance tax position should be considered if the barn is in the ownership of the older generation.

The involvement of your accountant and agent on these issues at an early stage can reap dividends! ■

"The articles featured in this publication have been selected and prepared with a view to disseminating key information and are not intended to be comprehensive nor to provide advice. Before taking action advice should be sought for specific queries."



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