A Guide to Calculating Tenant Improvements to Site

Introduction

When a tenant takes on a piece of land they are likely to make improvements to it. This can happen through installation of infrastructure, creation of growing beds or planting of trees for example. Some of the improvements a tenant makes will be temporary and removable, others will be more permanent. It is important to establish at the beginning of a tenancy, and ideally detailed in a land agreement, what the expectations are of both parties when it comes to the removal or compensation of these assets.

Government Guidance[1]

Under a Farm Business Tenancy (FBT) tenants are entitled to compensation at the end of a tenancy for:

- physical improvements they've made to a holding (provided the landlord has given consent to the improvements)
- changes that increase the value of the holding (provided they are left behind when the tenant leaves)

It can be agreed in writing an upper limit on the amount of compensation that will be paid, usually equal to the tenant's cost in making the improvements.

For Consideration

Below are some discussion points for both landowners and landseekers to consider;

- When is written consent for an improvement necessary? Is there a lower financial limit?
- Will there be an upper limit on the amount that will be reimbursed for a single item or for the whole plot? If so this needs to be set in writing by the landowner and tenant.
- How will you record the improvements and written consents?
- How regularly will improvements come up for review?

Depreciation

Depreciation is the value by which the asset has reduced in value since purchase. The rate of depreciation should be decided by the tenant and landlord when consent for the improvement is given. One option is to use the accountancy professional's method - the cost of the improvement divided across its lifetime. For example a shed might last 25 years so it will depreciate by 4% of the initial cost each year.

[1] https://www.gov.uk/guidance/agricultural-tenancies#farm-business-tenancy-compensation

Maintenance
The value of maintenance to an improvement can be added after depreciation is deducted for that year and the total value will be subject to depreciation again the following year and so on.

Appreciation
Some improvements appreciate or increase in value such as an orchard. An agreement will need to be made on how to calculate the appreciation of these assets. For example a surveyor could give a valuation on an orchard every year to record the appreciation, for example.

Labour

A decision should be made on whether the labour involved in installing the improvement will be included in the improvement. For instance, the installation of irrigation pipes installed by a contractor as an up front payment could be included in the value of the improvement. Alternatively, the planting of a woodland by the tenant and volunteers is a cost of time. If labour by the tenant and/or volunteers is included in the valuation, at what rate will it be charged? The real living wage provides a current figure for wages that cover basic needs.

Grant Funding
If an improvement is paid for by grant funding will these funds be included in the value of the improvement for compensation? If not the value of the funding should be deducted from the total installation cost.

Asset Lock
An asset lock is a legal provision for Community Interest Companies (CICs), charities, and community benefit societies that ensures assets (funds, property, equipment) are used for their stated community purpose, rather than private gain. It prevents the distribution of assets to members or shareholders upon dissolution, requiring them to be transferred to another asset-locked body. Capital assets typically include machinery or equipment that can be easily distributed in line with the asset lock. However, if grant funding was used to pay for fencing or polytunnels for example, these may also be subject to the asset lock and cannot be left with a landowner if they are not under the same legal business structure or if they do not intend to use those assets for the specified community use.