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Savills World Research
UK Rural

Estate Benchmarking
Survey

2013

This publication
This document was published in September 2013. The data used in the charts and tables is the latest available at the time of going to press.

Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

The most commonly used abbreviations are:

- AHA: Agricultural Holdings Act
- AST: Assured Shorthold Tenancies
- CAP: Common Agricultural Policy
- FBT: Farm Business Tenancy
- IHT: Inheritance Tax

Estate structure
The average estate structure for those estates participating in the survey is:
- 3,600 acres
- 43 residential properties
- 11,350 sq ft of commercial workspace

Estates range in size from below 1,000 acres to above 20,000 acres.

Estate ownership
Institutionally owned estates represent around 20% of the estates in the survey with the remainder in private ownership. The owner is resident on three quarters of the privately owned estates.

Ownership objectives
Long-term retention of the core estate and income generation remain the key objectives for the owners of these rural estates followed by return on capital and environmental stewardship.

Footnotes
We regularly review our survey data, which means the data published each year may not exactly match that published in the previous year's survey.

Separate results are published for Scottish estates.

Estate Benchmarking
Introduction

Boosted by the growth in farmland values, the investment performance of rural estates continues to perform well against other assets

Our Estate Benchmarking Survey results again reinforce the benefits of holding diverse assets and enterprises in order to provide a secure and stable income stream as well as capital growth.

The investment performance of rural estates (boosted by the strong growth in farmland values) continues to perform well against other assets – limited supply, the security of a tangible asset and demand from expanding farmers, investors (including those looking to shelter tax) and amenity buyers are all driving farmland value growth.

There appear to be some rays of light in terms of the general economic outlook with recent indicators showing a more positive trend. This includes the housing market, which can only translate into added value for rural estates.

Pursuing opportunities

The diversity of estate businesses has helped to overcome volatility peaks and troughs in individual sectors. For example, a combination of the poor weather last summer, together with constraints on disposable household income, dampened the performance of the leisure sector.

However, the increasing optimism in the economic outlook is reflected in more enquiries to rent commercial space, which is helping to boost rents and reduce void periods and debtors.

This optimism is encouraging estates to pursue opportunities to develop underutilised assets and to seek to generate new income streams. This has been assisted in part by greater availability of funding and possibly in the future by more flexibility in the planning system.

Renewable energy projects have begun to deliver a profitable income stream and helped to reduce input costs. Anticipated changes in the level of financial support in the future may limit the uptake by undermining the profitability of more marginal schemes.

The let residential sector continues to produce a strong performance although there has been an increasing turnover of tenants on many estates pursuing the highest rents. Tenants are continuing to feel the affect of tight household budgets, where salaries are not keeping pace with inflation.

This is encouraging many of them to look to move when opportunities to reduce the rental burden and running costs become available. While it remains difficult for many tenants to get onto the housing ladder there continues to be demand for most let property.

The combination of increasing optimism in the economy, government policy delivering some flexibility from historic planning constraints as well as some anticipated reduction in financial support to some sectors, together with the willingness of estate owners to pursue new opportunities has ensured that many estates have delivered a good set of results in the 2013 survey.

Proactive management with a continued focus on costs will be key to maintaining this position and driving more value to the bottom line.

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Executive summary

The key findings in this issue

- Average gross income on 'All Estates' increased by 5.3% to £212 per acre.
- Agricultural and residential sectors performed well with increases in total income of 2.3% and 4.6% respectively.
- In addition, total income from commercial enterprises increased 21% - a bounce back from the previous two years.
- In contrast, it was the reverse for the leisure sector, which was hard hit by the uncertain macroeconomic conditions and the bad weather in 2012 leading to a fall in incomes of -7.3%.
- Cost saving measures proved effective at capping total expenditure (up just 0.2%) at £88 per acre.
- This led to a significant 9% increase in net incomes (before depreciation, finance, drawings and tax) to £124 per acre.
- Rural assets continue to outperform most alternative assets with a healthy investment performance recorded by our survey. In the year to 5th April 2013, the average Total Return for 'All Estates' on all Let Property was 9%. However, the total return was primarily made up of capital growth (7.7%) and just 1.3% of income return.

New to our 2013 survey are details on income from renewable energy and Assured Shorthold residential rents by house type, see pages 6 and 7.

Contents

Estate Benchmarking
Income

The 2013 survey results show that average gross income on 'All Estates' increased 5.3% to £212 per acre across the whole estate (including woodland), which represents stronger growth than recorded during the past few years.

Cost-saving measures proved effective at capping total expenditure (up just 0.2%) at £88 per acre, which resulted in a significant 9% increase in net incomes (before depreciation, finance, drawings and tax) to £124 per acre.

Graph 1 shows the change in proportion of income derived from the key sources on rural estates. The most significant change is the increased income generated from the commercial and leisure sectors reducing agriculture's overall contribution to 35% in 2013 from almost 50% in 2000.

Agricultural income

The agricultural assets of rural estates continued to perform well – keeping pace with inflation.

Average income from all agricultural sources on 'All Estates' rose by 2.3% in 2013 to £73 per acre and represented 34% of gross income. Looking specifically at the let area of the average estate, income from all let agricultural sources in 2013 increased by 13.7% to £93 per acre – mainly driven by FBT growth.

Due to the difficult harvest in 2012, in hand farm incomes (net income after deduction of property repairs, insurance, third party rents and interest on borrowed working capital) on 'All Estates' fell by -33% to £88 per acre in 2013 and similarly income from contract farming ('All Estates') enterprises fell by a similar proportion to £111 per acre.

We expect pressure on tenanted and in hand operations to continue as the additional costs of redrilling 2013 harvest winter crops with spring crops takes its toll on cash flows into the 2014 harvest year.

Our survey shows growth in average passing agricultural rents in 2013 as strong commodity prices led to rental increases:

- Agricultural Holdings Act (AHA) rents on 'All Estates' strengthened by 4.8% during 2013 to average £73 per acre.
- Farm Business Tenancy (FBT) rents on 'All Estates' increased by 12.3% in 2013 to average £103 per acre.
- See Table 1 on page 6 for agricultural rents by farm type.

The FBT area continues to increase and now represents 40% as a proportion of the total let agricultural area.

This, with the diversity in values, is illustrated for FBTs in Graph 2 on page 6 using data from our rents database. Detailed analysis suggests that active management and engagement with tenants is essential for maximising returns and opportunities for both parties in all sectors; not only agriculture.

The average surplus for let agricultural property (after property repairs, share of general estate repairs and other expenditure including management costs) on 'All Estates' has remained stable at around 54% for the past four years.

Residential income

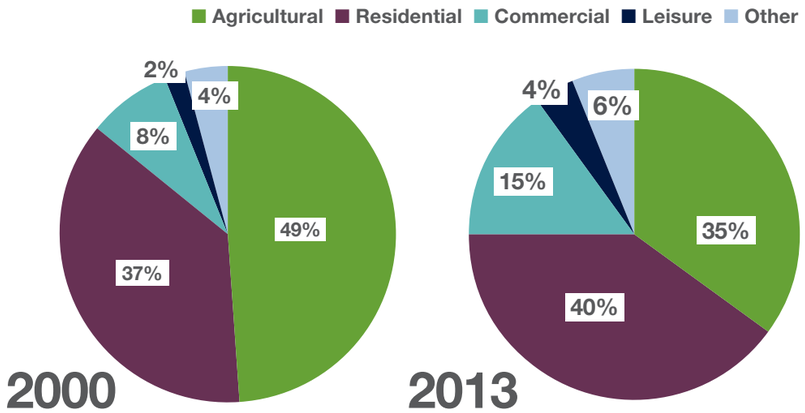
Average income from residential sources on 'All Estates' increased in 2013 by 4.6% to £84 per acre and represented 40% of gross income.

This growth is a combination of rental increases and a continued increase in the proportion of ASTs; 56% of all properties in 2013 from 50% in 2011.

Our survey also recorded a fall in the proportion of residential properties tied up in agricultural tenancies or in hand operations from 28% in 2011 to 23% in 2013.

GRAPH 1

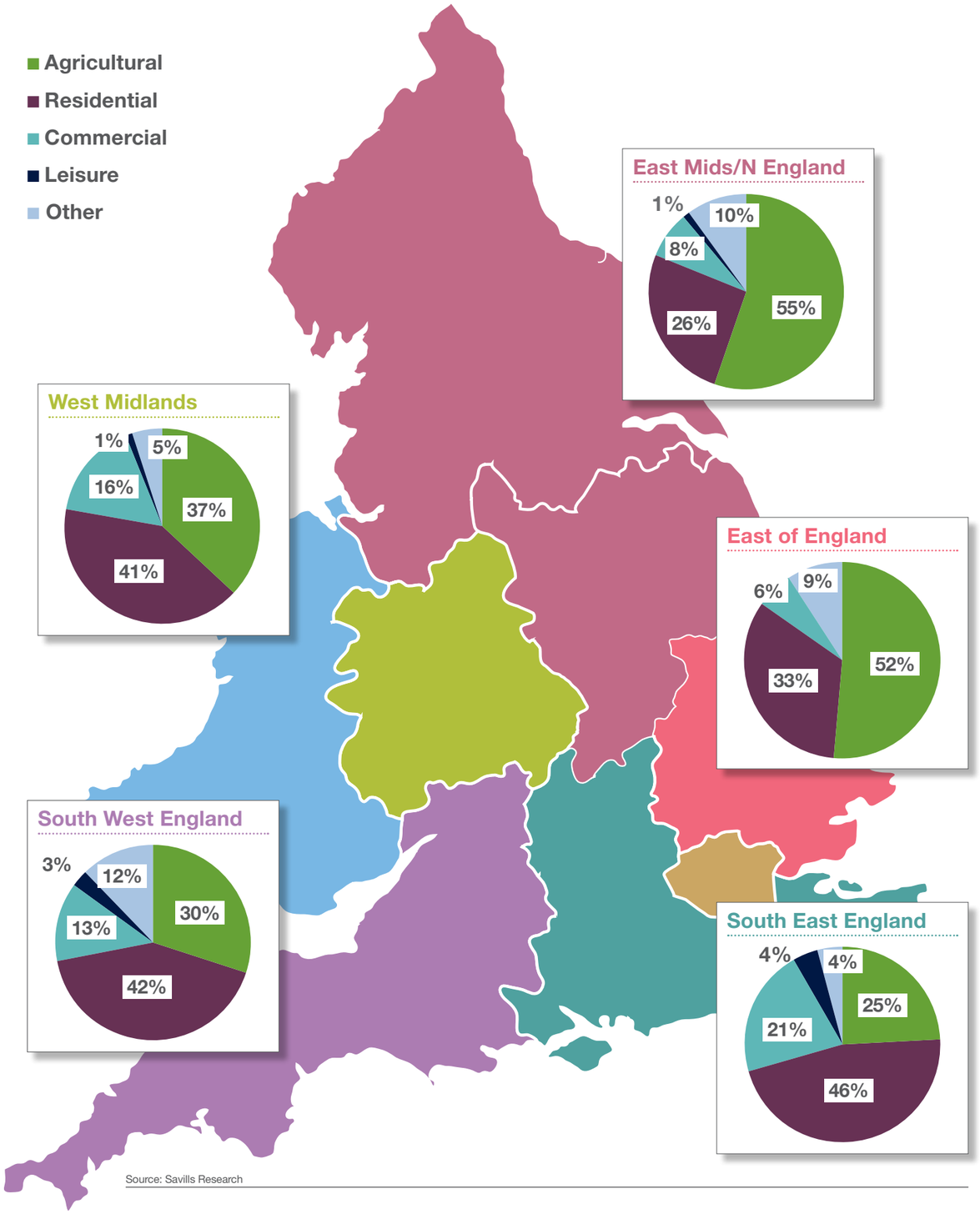
Proportion of income in 2000 and 2013



Source: Savills Research

MAP 1

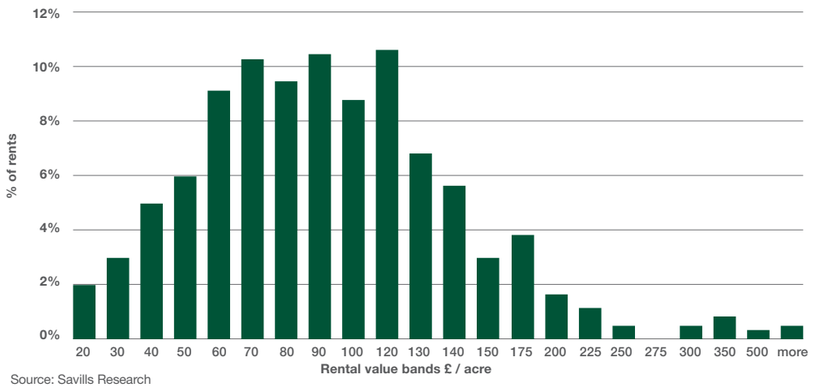
Proportion of income by region for 2013



Source: Savills Research

GRAPH 2

Diverse range of FBT rents



Source: Savills Research

TABLE 1

Agricultural rents by farm type

Agricultural Rents by farm type		
AHA Rents by farm type (£/acre)	**2013**	**% increase on 2012**
Arable	68.81	2.3%
Dairy	83.18	9.1%
Mixed	73.68	4.5%
Beef/sheep	61.83	2.7%
FBT Rents by farm type (£/acre)	**2013**	**% increase on 2012**
Arable	114.85	24.8%
Dairy	116.66	8.5%
Mixed	93.21	1.5%
Beef/sheep	64.22	6%

TABLE 2

AST rents by region

Residential Rents		
AST rents (£/dwelling)	**2013**	**% increase on 2012**
East of England	8070	5%
East Midlands/North of England	6802	12%
SE England	10327	-5%
SW England	8231	2%
West Midlands	7563	4%

Source: Savills Research

■ Average annual rental income of Assured Shorthold Tenancies (AST) on 'All Estates' increased by 4.6% during 2013 to £8,723 per dwelling.

■ Average regulated rents on 'All Estates' increased by 9.5% to £5,250 per dwelling.

Our research indicates that AST void periods have increased to 6.4% in 2013 from 3.5% in 2012 and are now at the highest level for five years.

New to our survey this year is average AST rents by house type. Average rents ranged from over £31,000 per annum for manor houses to under £7,000 per year for one to two bed flats as illustrated by Graph 3.

Table 2 illustrates how location affects AST rental levels with the South East of England recording the highest average AST rents at almost £10,500 per dwelling although there was pressure at the top end of the rental market with the South East recording a -5% fall in average AST rents in 2013 – the only region to record a fall during the 2013 survey year.

Evidence suggests that we may be beginning to see two tiers in residential rents as demand for large properties weakens with high running costs being a factor.

Proactive tenant management along with a realistic pricing policy will be necessary to ensure that voids are minimised and income maximised.

At the lower end it is envisaged that demand will remain strong as raising equity to buy remains difficult for many although this may be tempered by 'Help to Buy' schemes.

The average surplus for all let residential property on 'All Estates' in 2013 was 30% and comparable to the 31% recorded in 2012. ASTs recorded a higher surplus of 44%.

Commercial income

Average income from all commercial sources on 'All Estates' increased in 2013 back to a similar figure recorded in 2010, following downward pressure on incomes for the past few years. In 2013, income from this sector represented 15% of gross income up from the 13% recorded in 2012.

Evidence suggests that there has been more activity for commercial workspace on rural estates and it is hoped that the relaxation of planning regulations, which came into force from 30 May 2013, will stimulate this further.

In contrast to the agricultural and residential let sectors the average surplus for let commercial property on 'All Estates' fell in 2013 to 45.4% compared with 54% in 2012 and 52% in 2011.

Property repairs on commercial property in 2013 was over 18% of income suggesting that repairs may be increasing on buildings converted several years ago.

2013 recorded positive growth on all commercial workspace rents following pressure in 2012 with the exception of retail:

■ Average office rents on 'All Estates' were stable (just 0.8% increase) in 2013 to £9.30 per sq ft.

■ Average rents on 'All Estates' for let industrial units increased by 4.6% in 2013 to £3.59 per sq ft.

■ A 20% increase was recorded in average rents (£2.93 per sq ft) for storage units on 'All Estates'.

■ The average rent for retail units fell by -6.4% to £14.67 per sq ft.

In 2012, average rental income from telecom masts fell by -12% to average £5,287 per mast. This follows four years consolidation from a peak of £7,315 per mast in 2009.

Our research shows that, as well as reduced unit income, the density of masts has fallen adding an additional pressure to overall incomes from this asset.

Leisure income

Income from leisure activities remains under pressure in contrast to the commercial sector. Average income from all leisure sources on 'All Estates' represented 4% of gross income in 2013 still lower than the 5% recorded in 2010. Income from this source amounted to £7.40 per acre in 2013 down -7.3% from 2012.

Location is key (see Map 1) and the South West and South East of England recorded the highest levels of income from this sector at £7 per acre and £12 per acre respectively.

The prolonged weak economic climate has clearly had an effect on this sector. This is very evident in the key tourism area of the South West of England, where income is just a third of the £24 per acre that was recorded in 2009.

Woodland income

On the average estate woodland makes no real contribution, in its own right, to gross income although it is an important part of the estate's structure/assets providing the opportunity for sporting and leisure activities.

However, income generated ranges from over £30 per acre to being a loss of over -£10 per acre.

As mentioned in our 2012 survey report this is a resource that is worth more exploration – it represents around 10% of the area of the average estate. Potential opportunities might include renewable energy, woodland grants and leisure projects.

Sporting income

Our survey shows that the average income from sporting sources fell by -21% to £2.62 per acre – similar to that recorded in 2012. Regionally, the highest average sporting income was again recorded in the South West of England at £3.43 per acre. As with woodland the range is diverse with some estates generating over £15 per acre from sporting enterprises.

Renewable energy

Renewable energy potentially offers estates an additional income stream – the key driver on 80% of estates considering a project.

However, our survey results suggest that 70% have assessed the renewable energy potential of their estate with another 12% planning to do so in 2013.

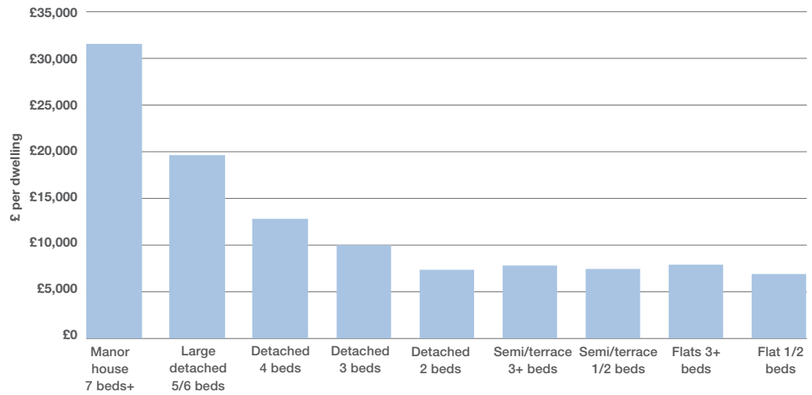
The main challenge in proceeding with a project (mentioned by 72% of respondents) is the capital cost/availability of funds, with planning (22%) also being a significant hurdle.

Income from renewable projects in 2013 averaged just over £4 per acre on those estates involved in projects (or almost £1 per acre across 'All Estates'). Solar Photovoltaic schemes were the principal source of income. ■

> "2013 recorded positive growth on all commercial workspace rents"
>
> Ian Bailey, Savills Research

GRAPH 3

AST rents by house type



Source: Savills Research

Estate Benchmarking **Costs**

Average total expenditure was capped (up just 0.2%) in 2013 at £88 per acre despite significant inflationary pressure on many input costs. Our survey shows that the two main costs, property repairs and management represent three quarters of all costs and a third of gross income.

However, other costs (see Table 3) which increased by 7% to £23 per acre represent over 10% of gross income should not be ignored – anecdotal evidence suggests that the market is competitive for costs including insurance with premium reductions achieved in some cases.

In addition, new legislation can bring added costs. In October 2012, the Government introduced a requirement for all employers to automatically enroll their workers in an approved pension scheme, to be phased in over four years for smaller employers. Despite this new legislation, only 20% of a subset of our survey participants currently has an employee pension scheme.

Average property repairs decreased a significant -6.3% across 'All Estates' to £41 per acre, but still represent just over one-fifth of gross income and almost half of total expenditure.

TABLE 3

Other costs on 'All Estates'

	Average £ per acre (£ per ha)	2013 growth %	% of gross income (2013)
Insurance	£5.75 (£14.20)	14.8%	2.7%
Other professional fees	£6.76 (£16.70)	98%	3.2%
Legal costs	£3.85 (£9.51)	-5.5%	1.8%
Accountancy	£4.03 (£9.96)	2.4%	1.9%
Rates and other costs	£2.32 (£5.73)	-31%	1.1%

Source: Savills Research

Capital improvement on the average estate also decreased significantly – by almost a half to £13 per acre.

The amount an estate spends on repairs and improvements generally varies from year to year unless the estate has a rolling repairs programme. It is a good policy to actively manage and timetable repairs to fit in with cashflow and labour troughs. This may be even more important in the light of the Davis v Davis-Cooke Agricultural Land Tribunal Decision (31 October 2012).

In the light of this we would suggest landlords review their repairing obligations, particularly with dairy farm tenants who have been permitted to expand.

It is likely that landlords will need to undertake significant and unexpected repairs and/or improvements, which could lead to some volatility in repair and improvements costs over the next few years with regards to investment into agricultural units.

Average total management costs across 'All Estates' increased by 5.7% in 2013 to £24 per acre. However, the annualised increase over the past three years was just 1.4% and below inflation.

Estate Benchmarking **Asset Performance**

Rural assets continue to outperform alternative assets and our survey again records a healthy investment performance on 'All Estates'.

In the year to 5th April 2013 the average Total Return for 'All Estates' on all Let Property was 8.2%, the sum of a net income return of 1.3% and capital growth of 6.9%.

However, it is the farmland that contributes the lion's share of this performance although capital growth was slightly more muted in the 2013 survey year. It recorded capital growth of 11.6% (similar to the 12% recorded in our Farmland Value Survey) and a net income return of 1.3% giving a total return of 12.9%.

The let residential sector is currently the weakest performer on rural estates showing a similar trend to the mainstream residential markets. Average total return for let residential property on 'All Estates' was 4.5% being the sum of a net income return of 1.2% and capital growth of 3.3%.

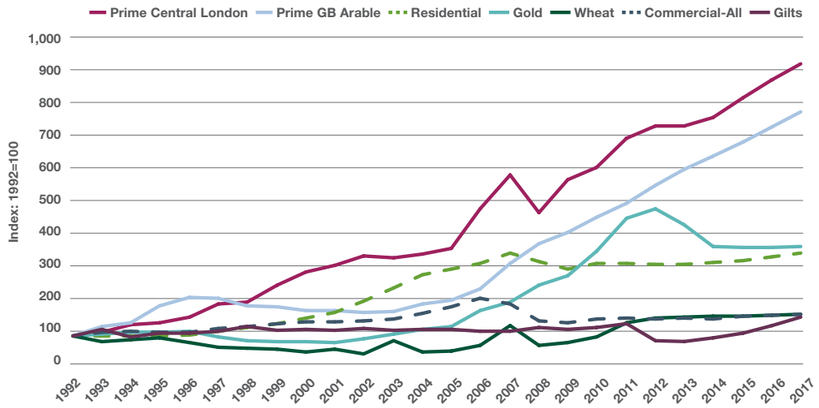
In contrast to the prime London residential market, the prime regional markets have remained relatively subdued. According to our Prime Regional Residential Index overall prices rose by just 0.3% on average in the past six months with no improvement in the number of transactions.

In contrast to agricultural and residential assets, let commercial property on rural estates contributed a healthy return in 2013 similar to 2012. Capital growth of 7.5% and net income return of 5.1% resulted in a total return of 12.6% across 'All Estates'.

We expect these trends to continue in the short-term with capital growth for farmland outperforming other assets with the exception of prime central London residential property as shown in Graph 4.

GRAPH 4

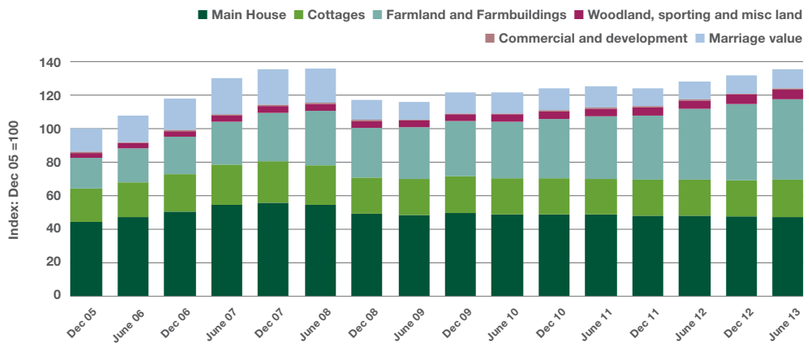
Prime farmland outperforms other assets



Source: Savills Research, Oxford Economics, IPD, HGCA, Kitco, Nationwide

GRAPH 5

Changes in value on rural estates



Source: Savills Research

Our 'Estates Index', which looks at the individual capital values of the core components of rural estates including marriage value (the premium) also shows that total rural estate values have benefitted from continued growth of agricultural assets (Graph 5). Total estate value increased 2.6% in the first half of 2013 and by 6.7% over the past year. Values are now only -0.3% below their June 2008 peak although this masks a huge divergence in performance. While farmland, farm buildings, woodland, sporting and miscellaneous land are significantly above peak, all other estate components are below.

Marriage value increased by 3.9% in June 2013, outperforming total estate growth.

OUTLOOK

Proactive management with a focus on costs is vital

■ Our Estate Benchmarking Survey again reinforces the benefits of having diverse assets and enterprises to provide a steady income stream, which has kept pace with inflation. Proactive management with a continued focus on costs will be key to maintaining this position and driving more value to the bottom line.

■ There appear to be some rays of light in terms of the general economic conditions with recent economic indicators showing a more positive trend. The UK economy grew by 0.6% in the second quarter of this year, up from 0.3% in the first quarter. However, there is no room for complacency, as output still remains 3.3% below its pre-recession peak.

■ The 2013 survey results recorded the strongest income (gross and net) growth for several years. We expect average gross incomes on rural estates to continue in a steady upward direction although costs and therefore net incomes will face some pressures.

The key growth factors in the short-term are likely to be:

■ Growth in the proportion of FBT area (5% per annum over the past five years) with reversion to AHAs.

■ We expect agricultural rents to increase although we expect growth to be more muted than in the past year following falling commodity prices, a difficult 2012 harvest and the cash flow implications of high proportions of spring cropping for the 2013 harvest.

■ Continued growth in the proportion of houses let at AST rents (2% per annum over the past five years) as concessionary agreements expire and AHA reversions release houses tied up in tenancies.

■ We expect the performance of the commercial and leisure sectors to improve following a dip during the recession. Visit Britain projections to 2020 show a steadily rising number of visits to Britain following a significant fall during 2008 to 2010.

These will be balanced by:

■ Unexpected repair and improvement costs on some estates resulting from the Davis v Davis-Cooke Agricultural Land Tribunal Decision as discussed on page 8.

■ Pressure on subsidy income for tenants and in hand operations and managing the strategic implications on estates as the latest CAP reforms are implemented.

■ The cost of new legislation to enroll all employees in an approved pension scheme as noted on page 8.

■ Farmland (in hand and let) and forestry have an excellent track record in investment performance over the long-term and have outperformed other assets in recent years, which we expect to continue.

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Our latest reports

- **International Farmland Focus 2012**
- **Market in Minutes | Farmland Market Q2 2012**
- **Market Survey | Agricultural Land 2012**
- **Spotlight | African Farmland**

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Savills Balfour Matrix

The 2013 survey links in with our Balfour Matrix – a tool based on the outcome of the Brander (Personal Representative of the late 4th Earl of Balfour) v HMRC (TC 69) case. The data identified within the survey can be used to indicate whether an estate meets the principles required to apply for Business Property Relief from Inheritance Tax (IHT), on assets that do not qualify for Agricultural Property Relief and were previously exposed to IHT. Please contact Clive Beer, Head of Rural Professional Services: cbeer@savills.com or 0207 877 4724 for more information.

Additional Services
In addition to this report, we can provide further analysis, such as the provision of supplementary benchmark comparisons, portfolio analysis and/or interpretation and presentation of results. Please contact Ian Bailey, Head of Rural Research: ibailey@savills.com or 01797 230156 for more information.

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