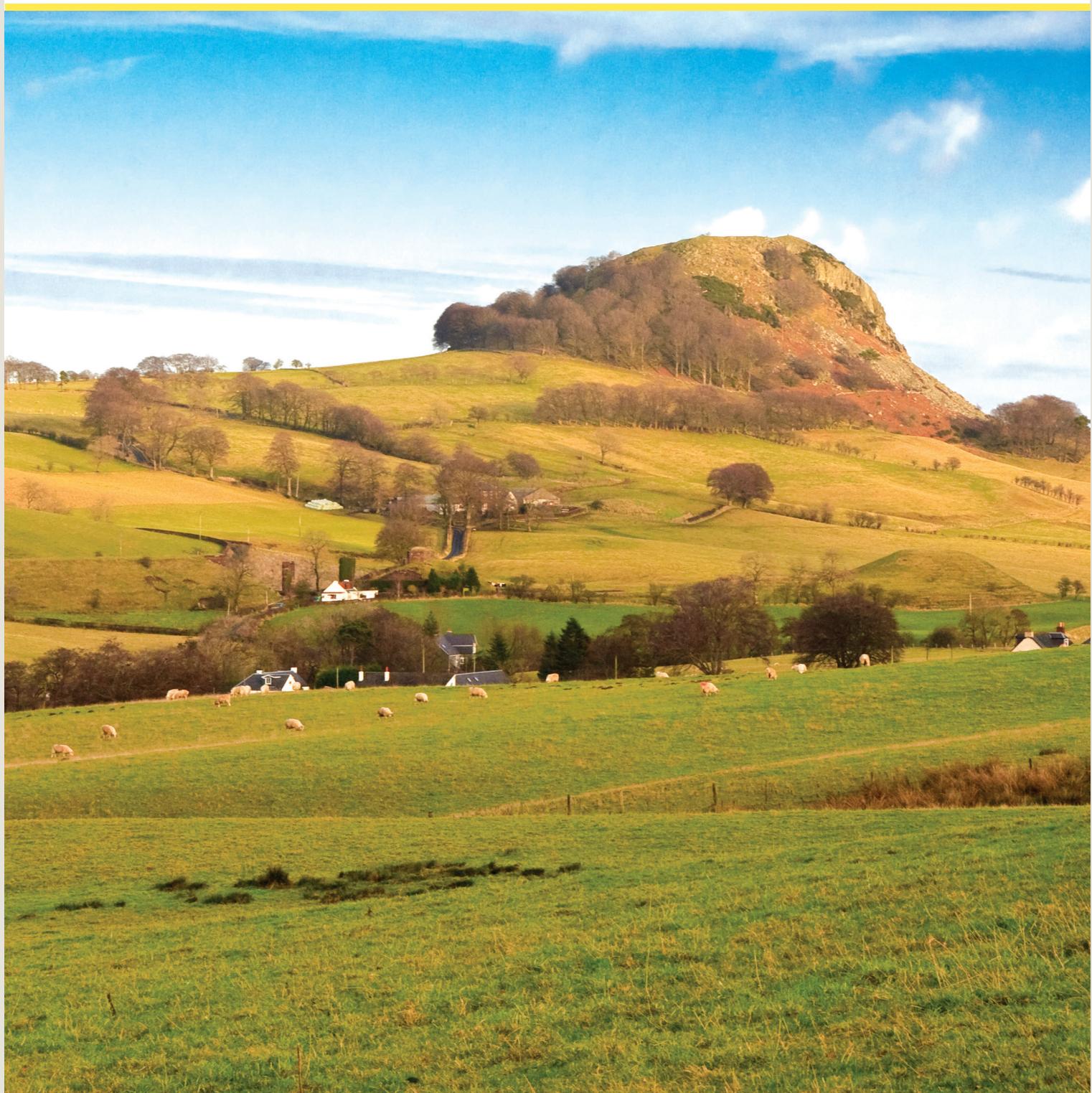


Scottish Estate Benchmarking Survey

2013



This publication

This document was published in January 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.

Estate structure

Within the survey, the average estate structure for 'All Estates' is just under 8,000 acres of lowland area, including about 90 residential properties and commercial and leisure enterprises.

Estate ownership

A quarter of the estates in the survey are institutionally owned, with the remainder in private ownership. The owner is resident in about half of the privately owned estates.

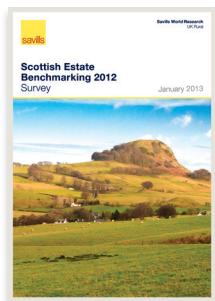
Ownership objectives

Estate owners cite income generation and long-term retention of the core estate as their key management objectives. Return on capital and environmental stewardship follow closely behind.

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 English estates.

Scottish Estate Benchmarking Survey



Rural estates in Scotland remain resilient to the pressures of economic uncertainty with gross and net incomes continuing to rise

Savills 2012 Estate Benchmarking Survey results demonstrate that rural estates in Scotland continue to remain resilient to the pressures of economic uncertainty with incomes continuing to rise despite an inflationary increase in expenditure.

These results are set against a back drop of continued economic uncertainty – both at a national, European and international level. However, the challenge, going forward, is to balance the pursuit of growth in turnover with the management of the ever-increasing cost base.

In the agricultural sector, recent output price volatility and the inflationary pressures on costs are likely to remain. However, the diversity of business assets, particularly residential, on rural estates has ensured a steadily growing income stream in stark contrast to many farm businesses, where income is often concentrated in one sector and exposed to output price volatility.

Source of income

The average gross income of £99 per acre (£245 per ha) in 2012 is up 5.2% on the previous year. Graph 2 shows the main sources of this income.

Not surprisingly, the income derived from leisure and commercial has fallen. Of note, income from woodland has increased, reflecting estates undertaking harvesting during a period of relatively high timber prices.

Agriculture

Agriculture is traditionally the main income source on rural estates, and in 2012, contributed 38% of gross income or £38 per acre (£94 per ha). However, its contribution has slipped

behind the residential sector for the first time. Our research shows that in 2012 agriculture contributed 44% of gross income.

Turning to the let sector, our survey records average agricultural rents in 2012, as illustrated in Graph 3:

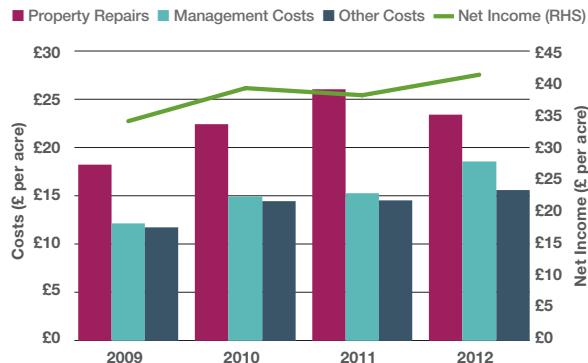
- **Traditional Tenancy:** £47 per acre (£116 per ha), up 12.5% on 2011.
- **Limited Partnership Tenancy (LPT):** £45 per acre (£111 per ha), up 3% on 2011.
- **Limited Duration Tenancy (LDT):** £60 per acre (£148 per ha), up 11.6% on 2011.
- **Short Limited Duration Tenancy (SLDT):** £72 per acre (£178 per ha), up 22.5% on 2011.

Traditional agricultural tenancy rents continue to increase, albeit at a slow rate, with the average rent at £47 per acre, up almost 10% since 2009 (in line only with inflation). These increases have followed from notices served in November 2007. Many of these reviews were 'sisted' or put on hold whilst the outcomes of various landmark cases were pending.

Landlords remain cautious about undertaking rent reviews, given the current politics associated with Secure 1991 Act Tenancies.

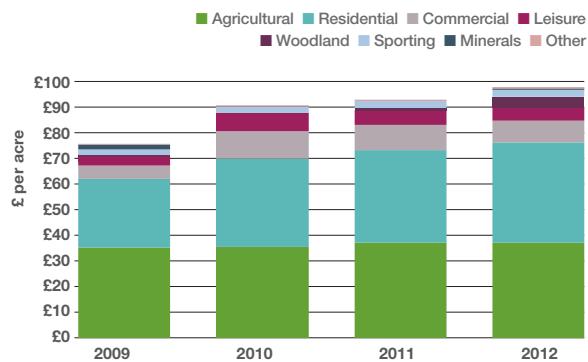
Graph 4 illustrates a continuing reduction in the area of traditional tenancies in favour of alternative arrangements, particularly, in-hand contract, in-hand and to a lesser degree, modern lettings. In 2012, the area of traditional tenancies in the survey represented 62% of the total agricultural area, compared with 67% in 2011. In contrast, in-hand contract farms now represent 12% of the total agricultural area,

GRAPH 1
Net Income and Expenditure



Source: Savills Research

GRAPH 2
Source of Income



Source: Savills Research

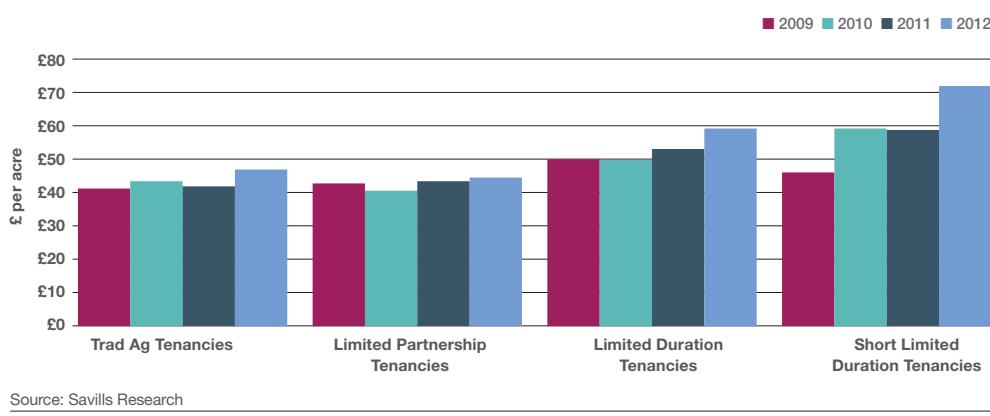
together with small increases in the proportion of LDTs and SLDTs.

Residential

The let residential sector continues to make a significant contribution to estate incomes and represented almost 40% of gross income in 2012, which amounted to £36 per lowland acre (£89 per ha), compared with 36% in 2009. Home ownership affordability problems, as predicted, are benefitting the residential rental sector.

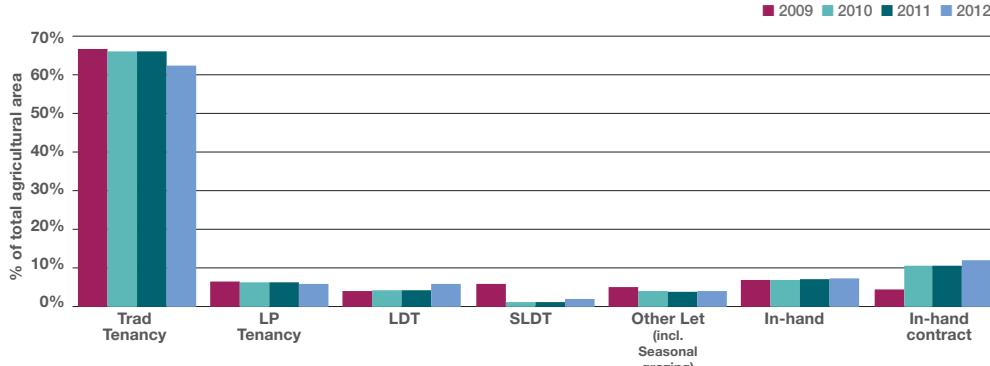
There is evidence of restructuring activity in 2012, with reversions to Short Assured Tenancies (SATs), particularly from agricultural tenancies, which is an outcome of farm rent negotiations. ➤

GRAPH 3
Agricultural Rents



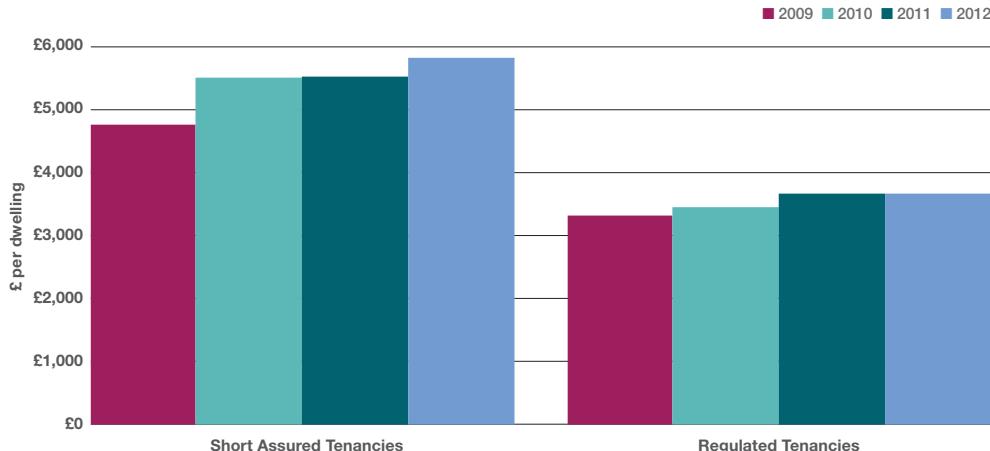
Source: Savills Research

GRAPH 4
Agricultural Tenure



Source: Savills Research

GRAPH 5
Residential Rents



Source: Savills Research

Location is a key factor contributing to the opportunities presented to individual estates. It is important to focus on the resources which offer the best potential for future income streams" Savills Research

SAT's now represent 46% of all housing stock, compared with 41% in 2009, whilst the proportion of houses within agricultural tenancies has fallen from 39% in 2009 to 31% in 2012.

Around 10% of rural estates' housing stock is let on protected tenancies, reflecting the level of subsidised affordable housing for key workers that estates provide to the local rural economy.

Our survey shows that the average SAT rent increased from £5,492 in 2011 to £5,799 per dwelling in 2012, reflecting 5.6% rental growth. This growth has been dampened by under-rented properties resumed from agricultural tenancies. Protected tenancy rents remained static at around £3,500 per dwelling.

Commercial and Leisure
These sectors have been most exposed to recessionary pressures and this is demonstrated by our research. Average income from all commercial sources on 'All Estates' came under pressure for the second year in a row and represented 8.5% of gross income, which totaled £8.38 per acre (£20.70 per ha), compared with 12% in 2010. The trend is similar for all leisure sources of income which represented 5.5% of gross income in 2012, £5.44 per acre (£13.44 per ha), compared with 7.7% in 2010.

The majority of let commercial workspace on Scottish estates is low cost industrial type space with average rents of around £1 per sq ft.

Despite coming under pressure in 2011, telecoms mast rents increased by 12% in the 2012 survey to an average of £8,580 per mast. This figure reflects total income per mast. This suggests that Scottish landlords continue to take a robust stance against telecom tenants who continue to push for downward rent reviews.

Sporting

Bearing in mind that the majority of participating estates are mixed or low-ground estates, sporting income is unlikely to make up a significant proportion of the total gross income. However, it is often a very important aspect of the estate, particularly in respect of capital values. In 2012, the income derived from all sporting activity was marginally under £3

per lowland acre (£7.40 per ha), up 14% on 2010. We believe that this is predominately as a result of an increasing proportion of estate sporting being let rather than enjoyed in-hand.

Other income sources

Other sources, including woodland and minerals, contributed the remaining 5% of gross income and amounted to £5 per acre (£12.35 per ha) in 2012.

Regional analysis

The results of our English survey show a similar pattern of gross income growth, although growth was more constrained at 2% to £200 per acre (£494 per ha). However, as Graph 6 illustrates, there was significant variation between regions.

Location is a key factor contributing to the opportunities presented to individual estates. It is important to focus on the resources which offer the best potential for future income streams within an estate's locality. Agriculture and Residential are the fundamental income streams in Scotland and the eastern regions of England, whereas other assets squeeze the agricultural contribution to less than a quarter of gross income across the southern regions.

The average estate in the south east of England derives 47% of its income from residential property and a further 20% from commercial assets. Income from leisure related activities, is unsurprisingly strongest in the south west of England, where it contributes 7% of gross income.

Net income

Our 2012 survey results show that the average net income (before depreciation, finance, drawings and tax) increased by 8.3% to £41 per acre (£99 per ha), while overall costs, mainly from property repairs and professional fees, increased, which dampedened the benefit of the increase in income (see Graph 1).

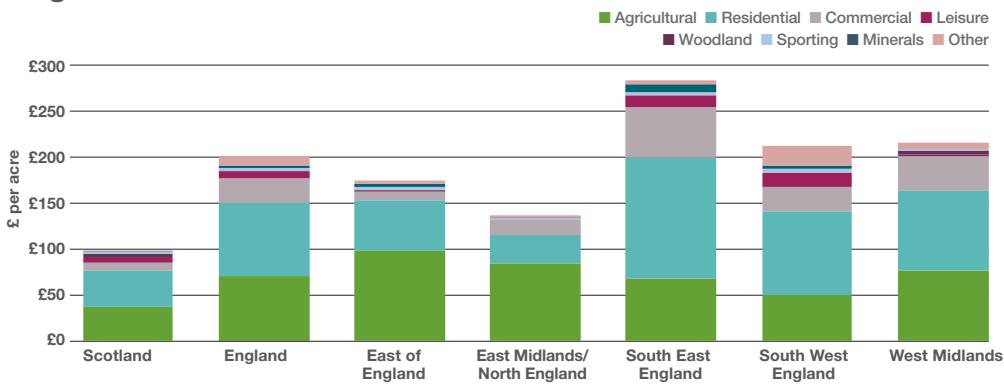
Net income was derived from an average gross income of £99 per acre (£245 per ha), and an average expenditure of £58 per acre (£143 per ha). Net income represented 42% of gross income.

Expenditure

Our research shows that expenditure on the average Scottish estate in

GRAPH 6

Regional variation in 'Source of Income'



Source: Savills Research

GRAPH 7

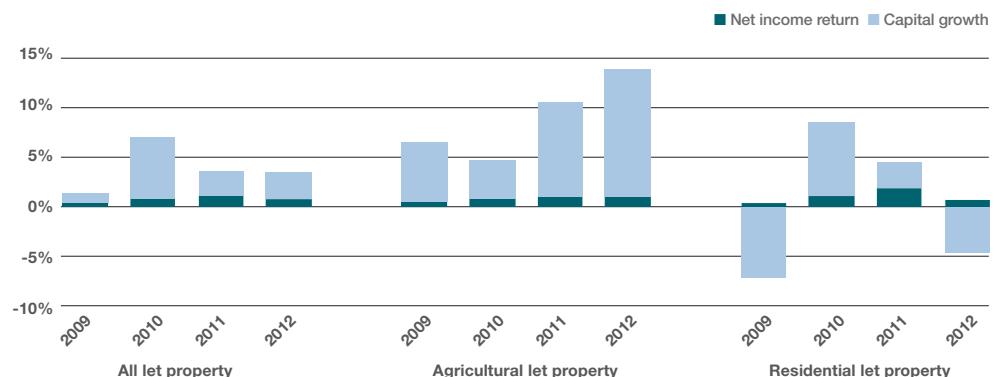
Costs as a % of Gross Income



Source: Savills Research

GRAPH 8

Investment Performance



Source: Savills Research

2012 increased by 3.2%, to £58 per acre (£143 per ha), although, at 58.6% it represents a slightly smaller proportion of gross income than in 2011. Graph 7 shows that property repairs and management costs amounted to 43% of gross income. However, other costs including insurance, legal, accountancy and rates should not be ignored, as they represent a further 16%.

Property Repairs

Property repairs remain the largest spend, and in 2012 amounted to £24 per acre (£59 per ha), down 10% on 2011 average spend, representing 24% of gross estate income (see Graph 7). An additional £5 per acre (£12 per ha) was spent on capital improvements to property – again lower (-33%) on the figure recorded in 2011.

Total average expenditure (including repairs) on SAT properties in 2012 was just over £4,000 per dwelling (up 22% on 2011), reflecting a lower net surplus per property of £1,658, compared with just over £2,000 in 2011.

We believe that this increased expenditure is directly related to houses resumed from agricultural tenancies, bringing the properties up to the Repairing Standard.

These figures would suggest that, although overall property repairs were down, the majority were spent on the residential portfolio.

Management Costs

Our survey shows that average management costs across 'All Estates' in Scotland, in 2012, were just under £19 per acre (£47 per ha), 21% higher than in 2011, and represented 19% of gross income. The trend has been similar for other professional fees, including legal and accountancy, which both increased in 2012, by 10% and 50% respectively.

Investment performance

Rural assets in Scotland continue to return a reasonable investment performance on 'All Estates' (see Graph 9). In 2012, the average total return for 'All Estates' on all let

property was 3.4%, the sum of a net income return of 0.8%, and capital growth of 3.4%.

However, it is the farmland that contributes the lion's share of this performance. It recorded capital growth of 12.7% (in excess of the 6% recorded in Savills Farmland Value Survey), and a net income return of 1%, giving a total return of 13.7%.

The let residential sector is currently the weakest performer on rural estates, giving an average total return for let residential property on 'All Estates' was 1.1% being the sum of a net income return of 1% and no capital growth. ■

OUTLOOK

Identifying the opportunities and threats for rural estates in Scotland

■ Our Estate Benchmarking Survey shows that rural estates, through a range of property assets, are managing the risk of income volatility. This will continue to be necessary as large swings between the peaks and troughs of commodity prices become the norm and the macroeconomic situation remains bleak in the short-term. The benefit in having a blend of significant income from both residential and agricultural sectors has helped ensured robust ongoing performance by Scottish estates.

■ Maintaining the success of businesses going forward will require regular evaluation and monitoring of the estates' assets. A regular and thorough review is essential to ensure new opportunities, which may lie within the core income streams, are not overlooked as these will inevitably benefit from the economy when this does recover and estates will wish to be best placed to harness these opportunities.

■ The outlook for rural estate businesses is positive and we see no reason why they will not maintain their relatively 'recession proof' status. We expect gross incomes to remain healthily in the black, especially where costs are efficiently managed.

■ With opportunities come threats, which is certainly the case in agriculture,

where high commodity prices are often balanced by reduced yields and quality (as in the current harvest) and input costs – especially of feed for livestock enterprises. The current CAP reform will have some strategic implications for rural estates. These factors and the uncertainty over the review period will impact on both tenants and landlords.

■ Restructuring of farm tenancies, striking a balance between rent levels, capital projects, the release of assets not essential to the tenant's farming operations, will drive more value (income and capital) and inheritance tax planning from the whole estate, whilst providing a sound infrastructure for the estate's farming operations (let or in-hand).

■ Opportunities still exist to drive more income from the residential sector. 54% of all houses on the average estate are not SATs and therefore rental potential is not maximised. There are many reasons for this and very few estates will even choose to have a 100% target, but converting a proportion of these to SATs will generate more cash and boost capital value.

■ Renewable energy is a hot topic and the Renewable Heat Incentive (RHI) and Feed in Tariffs (FITs) may offer the ideal entry into schemes on estates. As with all new projects, technical and financial appraisals

are essential to get the best solution for the individual circumstance and that any hurdles are successfully cleared.

■ Diversification may still offer opportunities in some locations, but any move down this route will need careful planning and market research to help ensure success. Woodlands might be a prime target in this regard.

■ Although the next few years are unlikely to be without their problems, and there may be some serious economic blows especially in Europe, we believe flexible and proactive management strategies will ensure success. In addition, rural assets will continue to dominate the top investment performance.

■ The forthcoming review of land reform will create further uncertainty, particularly on the let agricultural sector. Landlords will remain nervous about new lettings and we expect to see a continuing reduction in 1991 Act tenancies in favour of contracting and other arrangements.

■ Estate owners will continue to demonstrate their social responsibility investing more and more into the let and in-hand residential agricultural portfolios providing a stable community of jobs, good working environments and affordable homes to live in.



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Savills Balfour Matrix: Helping you to minimise the Inheritance Tax liability of your estate

“A year on from the launch of our Balfour Matrix, there is still a window of opportunity to establish whether your estate meets the principles required to apply for Business Property Relief from Inheritance Tax, on assets that do not qualify for Agricultural Property Relief and are currently exposed to IHT. A number of estates have explored this and discovered it is possible to significantly reduce exposure to IHT, through the restructuring of existing tenanted holdings or the management of the estate.”

Hugo Struthers,
Savills Head of Scottish Professional Services

The 2012 Estate Benchmarking Survey links in with our Balfour Matrix, which is a tool based on the outcome of the Brander (Personal Representative of the late 4th Earl of Balfour) v HMRC (TC69) case. The Balfour Matrix collates a range of information from an estate or agribusiness, allowing our Research Department to analyse your property's exposure to IHT, and the extent to which it qualifies for BPR. It shows whether action needs to be taken to secure your estate for your heirs, and what steps you can take to do so.

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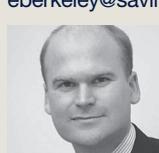
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