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Savills World Research
UK Rural

Estate Benchmarking Survey

2016

SPREADING THE RISK

The shift away from agriculture towards other revenue streams contributes to improved performance

KEY SECTORS

Agriculture. Residential. Commercial. Leisure

MANAGING COSTS

Estate expenditure levels

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EXECUTIVE SUMMARY

The diversity of assets and therefore opportunities to generate income has helped spread risk. This has been a key factor in improved performance
See page 03

Income from commercial and leisure has recorded annualised growth in excess of 60% over past three years. Weak pound to boost performance
See page 03

Average estate performance improved for the second year following a period of relatively weak annual growth in the preceding five years
See page 04

Agriculture and residential sectors remain the bedrock of rural estates, and deliver 80% of the average estate's gross income
See pages 04/05

Total expenditure represented 42.5% of gross income, which is its lowest level for five years suggesting that estates are managing costs successfully
See page 06

We are living in interesting times and no one reading this will have witnessed an event quite like Brexit before. Whilst we won't know how the key influences on the agricultural sector in particular, especially trade tariffs and support, will turn out for some time to come, we have to assume that the implications for the businesses that we manage are most likely to be significant.

Therefore understanding a business' key drivers and its strengths and weaknesses and then contemplating the possible effects of various scenarios will be important as trade negotiations progress and UK farm policy emerges. It is always important to undertake regular reviews of the direction in which a business is going and such analysis may then result in a change in estate strategy.

Benchmarking is an essential tool and where we have applied this to estates that we manage, it has given us a clear focus on the areas of performance which we need to pay particular attention to.

It is a pleasure to publish the English results of our 2016 Estate Benchmarking Survey. These show us that across the average estate, performance has improved for the second year running following a period of relatively weak annual growth in the preceding five years.

One of the key factors driving this growth is the diversity of assets including agricultural, residential, commercial and more recently renewable energy. In looking ahead real benefits may well be realised as a result of past diversification away from agriculture, by spreading risk over more asset classes and potentially lessening the impact of a reduction in farm support, should that materialise. Simply not having all your eggs in one basket.

BEDROCK OF ESTATES

The agriculture and residential sectors remain the bedrock of rural estates delivering 80% of the average estate's gross income. However, income from trading, commercial and leisure enterprises has recorded annualised growth over the past three years of in excess of 60% and we expect the weak pound to boost this performance in the current year.

Income, of course, is only part of the equation and costs which represent 42.5% of gross income, and their control should not be forgotten. However it is worth noting that our latest research reveals that this figure is at the lowest level for five years – this is good news but should equally leave no room for complacency!

Despite Brexit we believe the future in our sector remains positive, providing that we understand the businesses we manage and are prepared to adapt in order to meet the challenges that lie ahead. There will always be new opportunities in the rural sector and Brexit may well bring some. However, it is more important than ever to be ready to react over the coming few years.

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DIVERSIFIED INCOME STREAMS

The diversity of assets (agricultural, residential, commercial and more recently renewable energy) and therefore opportunities to generate income has helped spread risk. This has also been a key factor in the recent improved performance.

There has, as illustrated in the graphic opposite, been quite a shift away from the proportion of gross income generated from agriculture towards other income streams over the past 16 years.

Although the contribution from agricultural assets has fallen it, with residential still provides the lion's share (80%) of the average estate's income (more details on page 4 and 5).

Most estates have a number of other income sources including woodland, shooting, minerals and, in many cases, leisure and commercial trading enterprises.

Income from trading commercial and leisure enterprises has recorded annualised growth over the past three years in excess of 60% and we expect, while the pound is weak, income for tourism businesses will be boosted.

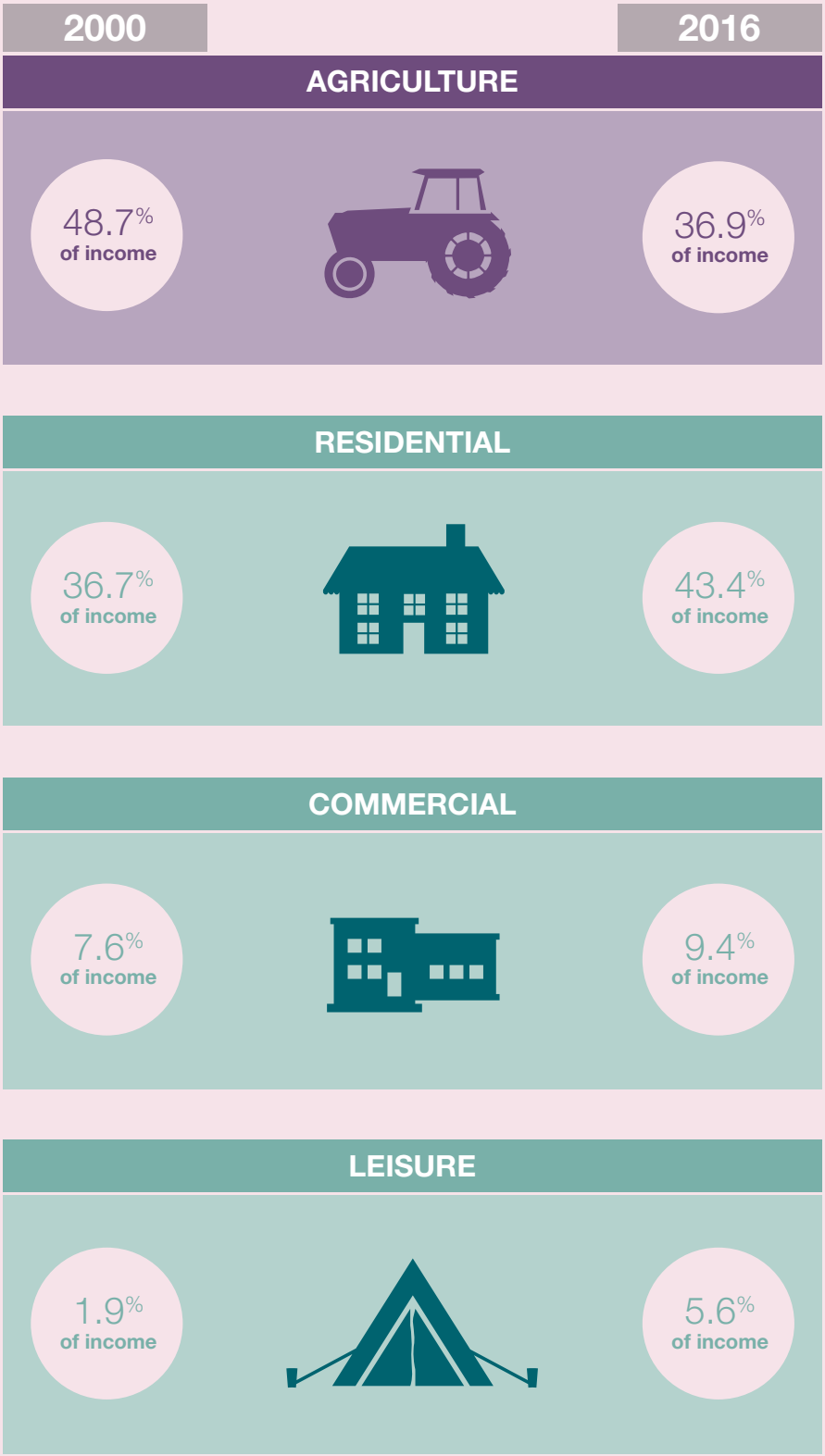
The character and value of these additional income sources is often dependent on location. Estates in the South West have the highest proportion of leisure income and the proportion of income from commercial assets is highest in the South East (see map on page 5).

In addition: many estates are actively generating renewable energy and our research shows, for these estates, renewables contributed £9.60 per acre to gross income in 2016 – almost double the £5 recorded in 2014.

These opportunities have given estates steady positive income growth over the long term which is in stark contrast to single farm enterprises where exposure to price, exchange rates and weather volatility has created significant swings in incomes from one year to another.

SHIFT AWAY FROM AGRICULTURE

Gross income increases across other revenue streams



SPOTLIGHT ON INCOME

The results of Savills 2016 Estate Benchmarking Survey show that the rate of growth for gross income on 'All Estates' slowed to 2.5% compared with 9.3% in 2015 equating to £231 per acre.

However, average estate performance is significantly improved for the second year, following a period of relatively weak annual growth in the preceding five years.

AGRICULTURE: In 2016, the agricultural sector came under some pressure with total income up just 2.5% (9.1% in 2015) equating to £85 per acre and representing 37% of gross income.

Passing rental growth remains positive despite lower commodity prices suggesting there is a time lag in any rental adjustments for AHAs. For FBTs any rental growth is tempered by demand exceeding supply due to the scarcity of land available to rent:

- AHA rents increased by 4.9% to £84 per acre
- FBT rents increased by 2.2% to £118 per acre

Reversions from AHA tenancies continue with almost half of the let area on the average estate now in FBTs compared with a quarter of the let area 10 years ago.

RESIDENTIAL: The residential sector continues to perform well and showed significant growth (15.6%) contributing, for the first time, over £100 per acre across the average estate. In 2016 the sector contributed 43% of gross income.

This trend looks set to continue as estates upgrade houses to maximise market rents and properties revert from concessionary tenancies.

- AST rents increased by 4.7% to over £9,600 per dwelling
- ASTs represent over 80% of rent bearing dwellings or 54% of all housing stock
- There is a range of average AST rents per dwelling across England; from £13,600 in the South East of England to just over £7,000 in the North of England
- Average AST voids over the past three years have been between 4% and 6%

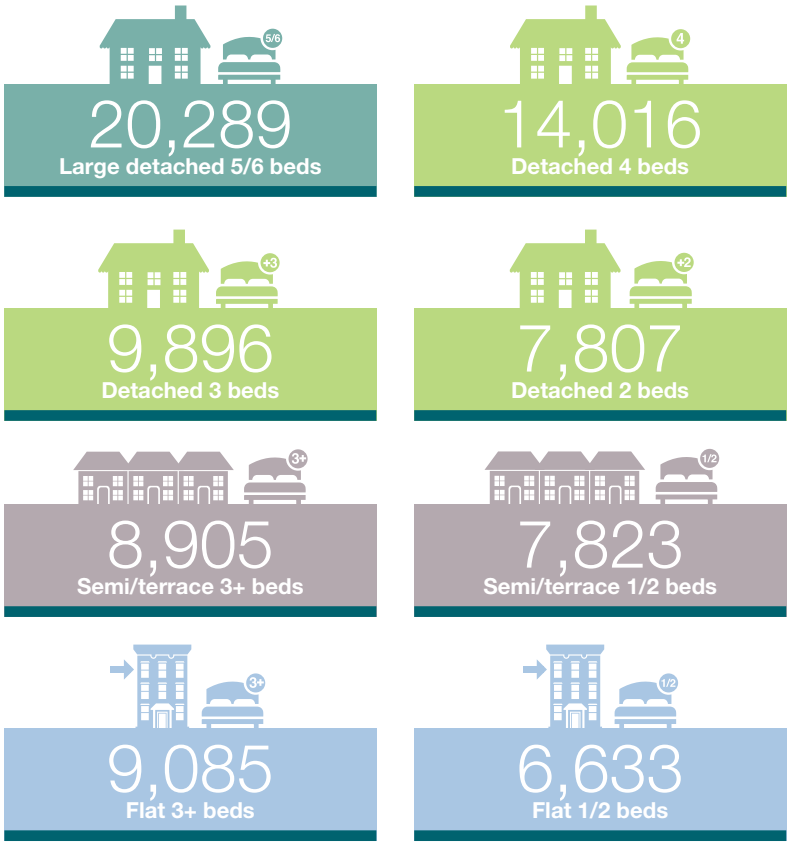
Our research of average AST rents by house type shows that, generally, the strongest recorded rental growth is for the smaller properties but there is anecdotal evidence over the past year of strengthening lifestyle demand for renting, rather than buying, larger detached houses in the countryside. Our survey results reflect this with positive growth for the top end rents (see Figure 1).

These two sectors remain the bedrock of rural estates and still deliver 80% of the average estate's gross income.

▼ Location and type are key factors for AST rents

FIGURE 1

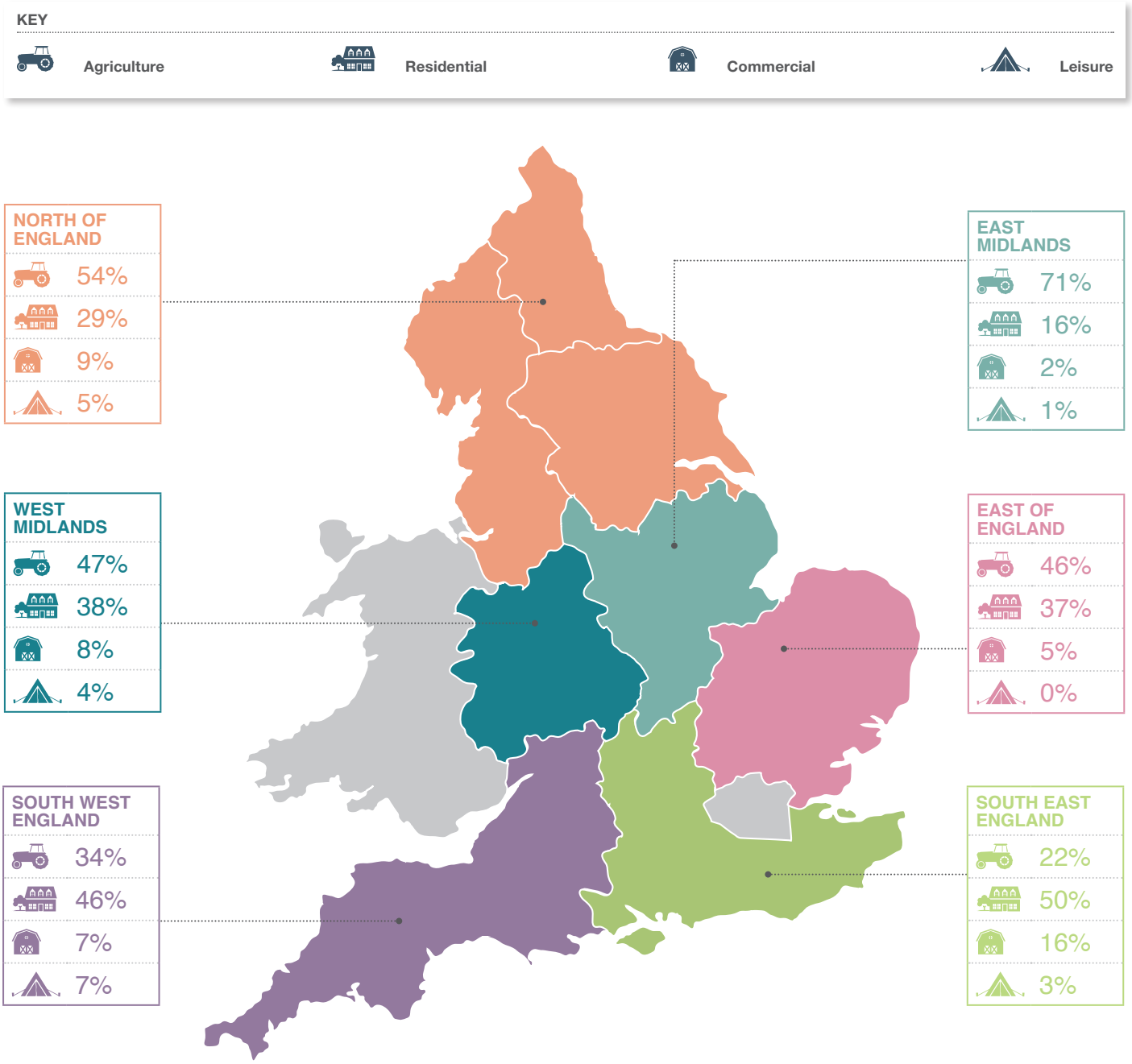
AST by house type (£) 2016



Source: Savills Research

FIGURE 2

Source of income by region 2016: Geographical differences across the various regions



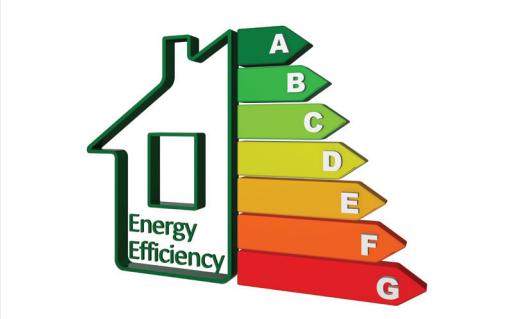
	EAST OF ENGLAND	EAST MIDLANDS	NORTH OF ENGLAND	WEST MIDLANDS	SOUTH WEST ENGLAND	SOUTH EAST ENGLAND
Woodland	2%	1%	1%	1%	1%	1%
Sporting	1%	1%	1%	1%	2%	1%
Minerals	8%	2%	0%	0%	2%	4%
Other	1%	6%	1%	1%	1%	3%

Source: Savills Research

EPC REGULATIONS

Remember the date

1st April 2018 – Minimum EPC regulations introduced – do your properties conform?



COSTS CONTROLLED

Total estate expenditure was very similar to 2015 – up just 0.8% and significantly lower than average inflation over the period of 1.7%. Total expenditure represented 42.5% of gross income, which is the lowest for five years suggesting that estates are managing their costs.

Net Incomes (before depreciation, finance, drawings and tax) rose by 3.4% equating to £133 per acre following a similar trend to gross incomes.

Total expenditure represented 42.5% of gross income, the two key costs being property repairs and management. Over the past five years these have represented 50% and 25% of total costs respectively.

A useful Key Performance Indicator (KPI) is cost relative to gross income. Figure 3 below gives a snapshot, but understanding the relationship between costs to the individual enterprises and resources available on an individual estate is crucial.

42.5%
Total expenditure of gross income

FIGURE 3

Average Estate Cost Summary: % of gross Income (five year average)

PROPERTY REPAIRS	MANAGEMENT	INSURANCE	OTHER PROFESSIONAL
21%	12%	2%	3%

ACCOUNTANCY	LEGAL	RATES AND OTHER COSTS	TOTAL COSTS
2%	2%	1%	42.5%

Source: Savills Research

LOOKING FORWARD

What are the implications of Brexit?

Looking forward the key uncertainty is the implications of Brexit. However, in the short term the weak pound may bring some benefits to rural businesses.

These include:

- A more positive environment for exports and commodity prices
- Potential for substantial increase in subsidy payments in 2017
- An increase in domestic tourism as more people choose to holiday at home to avoid unfavourable currency exchange rates, which will include rural tourism
- A boost in the number of overseas visitors to the UK, which is also likely to have a positive impact on rural tourism

In the longer term the outlook is less clear. Our analysis of agricultural profitability post Brexit is beginning to suggest that the impact of changes to trade agreements could be far more significant than changes to agricultural subsidy. We are regularly providing updates via our Brexit Briefings which can be accessed at *www.savills.co.uk/research/uk/brexit-research.aspx*

Awareness of potential changes to Government policy can potentially have a direct effect on estate incomes. An example might be housing benefit cuts. We carried out a straw poll of around 80 estates and the results reveal that:

- 38% of estates have a policy to let to housing benefit recipients
- The impact of the cuts to date has only affected residential income on 5% of estates

This report highlights the diverse income base potentially available to rural estates where the shift in reliance on agricultural income has already diluted the impact of future changes to support.

The key to profitability and a sustainable business in the future will be maximising the opportunities offered by the range of assets and resources often available to rural estates. To do this a full understanding of the current position, including benchmarking to challenge current performance, will be needed to provide the foundation for future strategy.

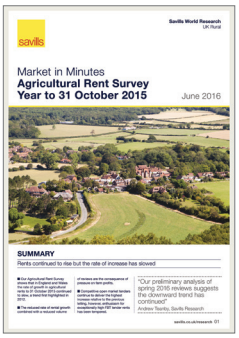
Looking forward the options, in addition to developing the core income streams, might include:

- Investing in assets outside the core business
- Developing additional housing stock to rent or through development land sales – our research suggests 28% of estates have plans to build new homes (including an element of affordable homes) and 40% have plans to sell land to developers
- Liquidating capital through sales should not be ignored.

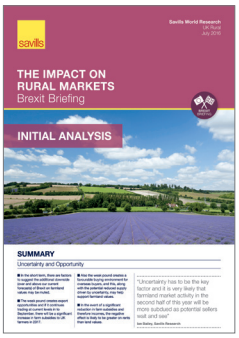
Additional Rural Research

Spotlight
Arable Benchmarking Survey

Spotlight
Shoot Benchmarking



Market in Minutes
Agricultural Rent Survey



Brexit Briefing
The Impact on Rural Markets

Estate structure
The average estate structure for those estates participating in the survey is:

- 4,550 acres
- 51 residential properties with an average density of 14.3 houses per 1,000 acres
- 11,100 sq ft of commercial workspace with an average density of 3,000 sq ft per 1,000 acres

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 is the key objective followed closely by income generation, return on capital and environmental stewardship.

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:

Glossary of terms

- **AHA:** Agricultural Holdings Act
- **AST:** Assured Shorthold Tenancies
- **EBS:** Estate Benchmarking Survey
- **FBT:** Farm Business Tenancy

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.

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. For estates using Key Accounts and/or Key Property software from LANDMARK Systems there is now a manual to help download data for the Savills Benchmarking Survey.

This publication
This document was published in September 2016. The data used in the charts and tables is the latest available at the time of going to press.

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