



# Estate Benchmarking Survey

2014



### **This publication**

This document was published in October 2014. 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:

- 4,200 acres
- 52 residential properties
- 11,660 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 is the key objective for the owners of these rural estates followed closely by income generation. Then 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.

#### **Balfour Matrix**

The 2014 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.

#### **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: [ibailey@savills.com](mailto:ibailey@savills.com) or 01797 230156 for more information.

A manual is now available for estates using Key Accounts and/or Key Property software from LANDMARK Systems to help download data for the Savills Estate Benchmarking Survey. Please ask Landmark or Savills if you require this.

# Foreword

## AT THE HEART OF THE COMMUNITY



Despite changes in structure, estates continue to make a large contribution to the rural economy

**O**ur survey results demonstrate that estates which continue to be proactively managed with the focus on exploiting opportunities to diversify and to develop underused assets continue to perform well.

Income growth from agriculture has almost kept pace with inflation but is significantly below the real income growth recorded in the residential, commercial and leisure sectors. The importance of the residential portfolio to most estates cannot be over emphasised as it now contributes the largest proportion to gross income.

Commercial property continues to recover after the knock following the credit crunch and significant rental growth in workshop rents have been seen this year, particularly in the southern region. Of particular note is the growth in leisure income, which has recorded real growth of 6.5% since 2000.

Whilst the structure of many estates has changed over the last few decades, they remain at the heart of rural communities in terms of social facilities, housing and employment.

Within the 2014 survey we explored the contribution that estates make to rural areas and found that the majority of estate owners continue to provide facilities for use by locals – these vary from schools to pubs, shops and village halls. The most common facility provided by rural estates is playing fields which are provided by over 70% of estates and 46% of estates own the village hall. The provision of these facilities often contributes to the desirability of the area and can support the performance of estates' let residential portfolio.

Over the last 20 years, the majority of estates have reduced the number of direct employees but continue

to have a significant role in rural employment both directly and indirectly. 66% of rural estates employ between one and five employees directly, and 2% of estates employ over 100 members of staff.

Housing provided by estates accounts for a significant percentage of rural housing, particularly in the more remote parts of the country. As the constrictions in mortgage lending continue to make it difficult for first time buyers and those without funds to put towards a deposit to purchase a property, the let housing provided by estates is crucial for those on medium and low incomes to remain living in rural areas.

Estates also provide houses at concessionary rates for current and past employees, although the number of concessionary rents is reducing over time. As many houses in the private sector are enlarged, there is a particular shortage of smaller starter properties to rent in many areas.

It is important that the planning regime assists estate owners to be able to convert buildings or to build an appropriate number and size of new houses and cottages to ensure that the let housing stock is maintained in rural areas.

The recent changes to permitted development rights for the conversion of agricultural buildings may in part assist with this as owners and their advisers become more familiar with the changes. However, a realistic approach to affordable housing percentages in new build schemes is also necessary to encourage estates to progress them. ■



**Sophie Barratt**  
Head of EBS Group  
01865 269 162  
sabarrett@savills.com

## SUMMARY



The structure of rural estates has witnessed significant change since the survey started in 1996  
See pages 04/05



Agricultural and residential sectors remain the two most valuable in an estate's portfolio  
See pages 06/07



Commercial and leisure sectors are making significant contributions to gross income  
See pages 08/09



Average total expenditure on 'All Estates' increased by a significant 7.1% during 2014  
See pages 10/11



It is vital to be aware of an estate's asset performance compared to other investments  
See pages 12/13

# Structure

# THE EVOLUTION OF THE RURAL ESTATE

Rural estates have witnessed significant change over the past two decades, but agriculture remains an integral part

**T**here has been significant change across rural estates since our survey started in 1996.

Our survey tells us that the primary motive for estate owners and managers is the retention of the core estate followed closely by income generation. Maximising return on capital comes in at third place.

This suggests estates are being managed proactively in terms of their property assets with an emphasis on consolidating the core estate and disposing of any non-core assets; both farmland and residential properties.

The predominant change to the rural estates agricultural portfolio has been the reversionary shift from Agricultural Holdings Act (AHA) tenancies to Farm Business Tenancies (FBT).

Our research shows that the AHA area represents just under 40% of the current average estate compared with

almost 70% in 1996 (see Table 1). Conversely, the proportion of acreage on FBTs has increased from almost nothing to 36%. A similar trend is confirmed across all farmland by the Defra data.

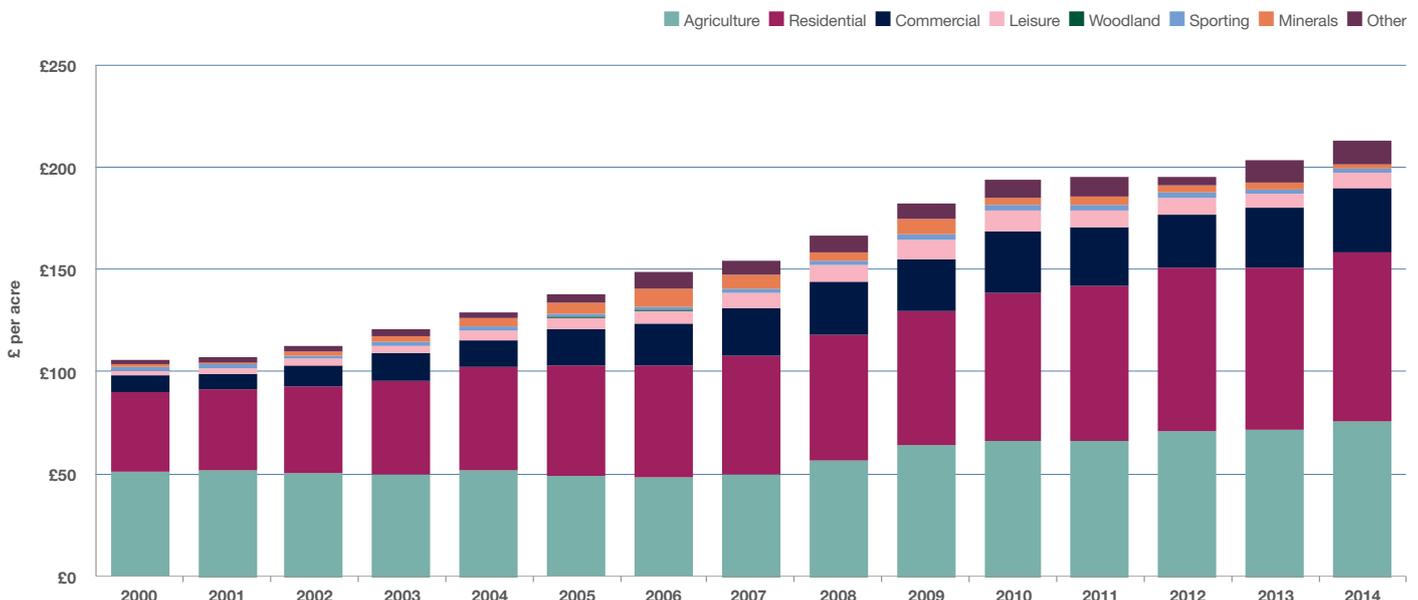
The rate of AHA reversionary was almost static between 1996 and 2005 since when the rate has increased significantly to its current level. The lag is probably due to FBTs only being introduced in September 1995 in the Agricultural Tenancies Act 1995.

All other elements of the agricultural portfolio have remained in broadly similar proportions over the period.

In addition, as with the agricultural portfolio, there has been a significant reversionary shift to market rents (ASTs) from concessionary and nominal/zero rents (see Table 1).

Our research suggests that many of these properties have come from the agricultural sector, where surplus houses have been relinquished as

GRAPH 1  
**Gross incomes keep pace with inflation**



Source: Savills Research

labour is replaced by machinery or farm tenancies are amalgamated to capture efficiencies of scale. In addition, proactive management has reduced the proportion of houses (outside of farm tenancies) which previously made no contribution to the gross income.

At the same time estate managers have been exploiting the opportunities presented by any under used assets within the core estate. This has included converting redundant buildings for commercial and leisure use. The area of commercial workspace has increased by four times on the average sized estate to around 12,000 sq ft since 2000, when data collection began. This has led to these sectors now contributing up to a fifth of gross income, although during weaker economic times this proportion often reduces. In the last recession this proportion reduced to average 17%.

These structural changes have ensured the long term steady increase in estate income per acre (Graph 1) which has increased faster than

inflation. This is in direct contrast to straight farm incomes which suffer higher volatility being directly linked to commodity prices and are without the same degree of benefit provided by the contributions made by other property assets.

In 2014 gross income increased by 2.9% to £214 per acre. However, net income growth was squeezed (-0.3%) due to a 7.1% increase in total expenditure with a 7.9% increase in repair costs being the main factor contributing to higher costs (see page 11 for more detail on estate costs).

This is illustrated in Graph 2 and clearly shows that income growth from agriculture, in real terms, has almost kept pace with inflation but is significantly below the real income growth recorded in the residential, commercial and leisure sectors.

However, agriculture is an integral part of the rural estate and the opportunities presented by the other sectors has ensured that incomes generated across the estate have more than matched inflation. ■

TABLE 1 **Change in occupancy**

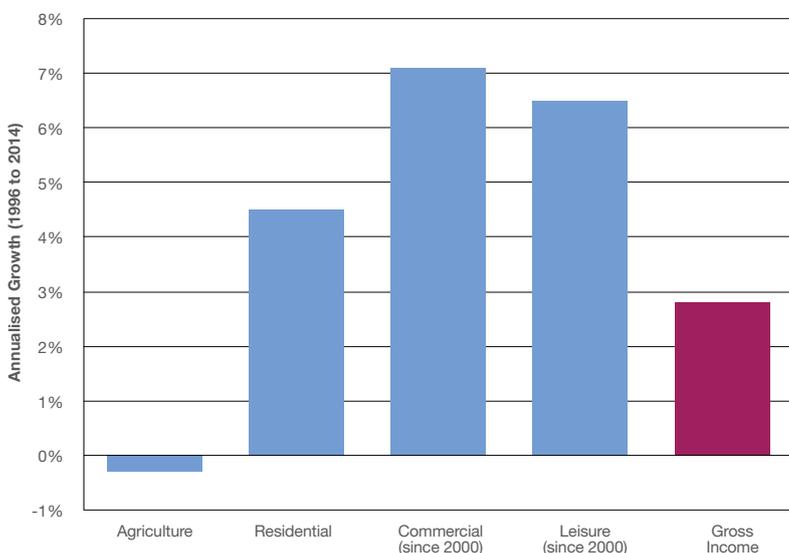
	1996	2005	2014
<b>AGRICULTURAL</b> Proportion of estate acreage			
AHA	67.2%	56.2%	39.4%
FBT	1.7%	18.2%	36.0%
<b>RESIDENTIAL</b> Proportion of housing stock			
AST	24.9%	44.5%	54.0%
Regulated	31.3%	18.0%	11.0%
In farm tenancies	27.5%	22.0%	19.3%

Source: Savills Research



“Estate managers have been exploiting the opportunities presented by under used assets within the core estate”  
Savills Rural Research

GRAPH 2 **Real annualised income growth by sector (1996-2014)**



Source: Savills Research



Retention of the core estate is the primary motive for estate owners



Income generation is the secondary motive



Maximising return on capital is third on the priority list

# Agriculture & Residential

## TENANCIES UNDERGO A REVERSIONARY SHIFT

Agricultural and Residential Sectors remain the two most valuable in an estate’s portfolio

**I**n future, at an estate level, our analysis suggests that as the economy picks up the rate of income growth from agriculture over the next few years may lag behind that of the other sectors. Residential, commercial and leisure sectors are more closely correlated to economic activity (measured as GDP growth).

Average income from all agricultural sources on ‘All Estates’ rose by 5.6% to £76 per acre and represented 35% of gross income in 2014. The structural changes and growth in the other sectors already discussed are emphasised by the fact that in 1996 almost two thirds of gross income was derived from agriculture.

The performance of in-hand farming operations remain under pressure with income (net income after deduction of property repairs,

insurance, third party rents and interest on borrowed working capital) around half the levels recorded in our 2012 survey (2011 harvest results). Although those on contract farming agreements fared best.

Across ‘All Estates’ average passing AHA rents increased by 8.5% to £79 per acre and average FBTs rose by 5.4% to £106 per acre. The FBT growth was more constrained due to the presence of concessionary FBT rents, such as those to family members or separate trusts (including surrender and re-grants).

Average rents mask the range and diversity of rental levels, which depend on several factors, including farm type, farm size and the term of the agreement. As a guide, Table 2 provides a snapshot of agricultural rents by farm type. The Savills rents database recorded an average increase for AHA rents settled in 2013 of 19% and for FBTs of 35% although our initial analysis of rents settled at Lady Day 2014 shows more muted growth; the averages mask the range of results.

The range of rental levels was diverse, both across the regions (see map on page 10) and by house type (Graph 3). Not surprisingly the highest regional averages were recorded in the South East of England at £10,600 per dwelling compared with £6,600 in the North of England. In most regions positive growth was recorded although there was some pressure on rental growth in the North and South West of England.

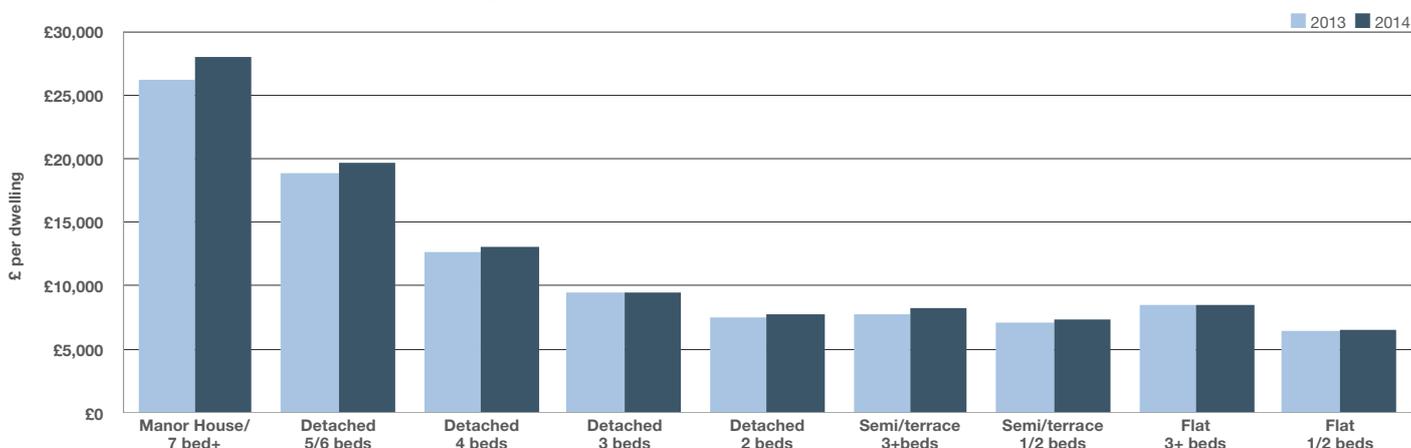
TABLE 2  
Agricultural rents by Farm Type

AHA Rents (£/acre)		
	2014	% increase on 2013
 Arable	£78	8.3%
 Dairy	£80	2.3%
 Mixed	£80	9.9%
 Beef/Sheep	£61	9.5%
FBT Rents (£/acre)		
	2014	% increase on 2013
 Arable	£116	12.6%
 Dairy	£129	15.5%
 Mixed	£99	4.1%
 Beef/Sheep	£67	8.2%

Source: Savills Research

.....  
 “Average income from all agricultural sources rose by 5.6% in 2014”  
 Savills Rural Research  
 .....

GRAPH 3 **AST Rents by House Type** Average income from residential sources increased by 4.3% in 2014



Source: Savills Research

### Residential portfolio

The residential sector now contributes the largest proportion (39%) to gross income having increased from 28% in 1996. Annualised income since 1996 from this sector has been 7.6%, which in real terms is 4.5%.

A significant proportion of this growth can be attributed to Assured Shorthold Tenancy (AST) annualised rental growth of 5.4% and of regulated tenancies of 6.4%.

The headline figures for the sector in 2014 are:

- Average income from residential sources on 'All Estates' increased by 4.3% in 2014 to £83 per acre.

- AST rents increased by 3.2% to almost £9,000 per dwelling with voids at around 6%.

- Regulated rents increased by 3.1% to almost £5,500.

The range of rental levels was diverse, both across the regions and by property types. ■

### SOUTH EAST ON TOP

Average 2014 AST rents by region

£10,627

SOUTH EAST ENGLAND

£8,709

WEST MIDLANDS

£8,632

SOUTH WEST ENGLAND

£8,305

EAST OF ENGLAND

£8,178

EAST MIDLANDS

£6,596

NORTH OF ENGLAND



Source: Savills Research

# Commercial & Leisure

## SECTORS RECOVER AFTER DOWNTURN

Commercial and Leisure sectors are making significant contributions to gross income

**B**oth commercial and leisure sectors continue to recover after a knock following the credit crunch. Total incomes increased in 2014 by 7.2% (to £31 per acre) and by 9.7% (to £7.25 per acre) respectively.

These sectors are making significant contributions to gross income and we expect this to continue as the economy gains momentum. Indeed, there are already indications of more activity and interest.

### Commercial workspace

Our survey recorded significant rental growth across commercial workspace rents as shown in Table 3. The continued success of this sector is generally location driven and due to this data is sparse in many areas. However, the results of our survey suggest the highest

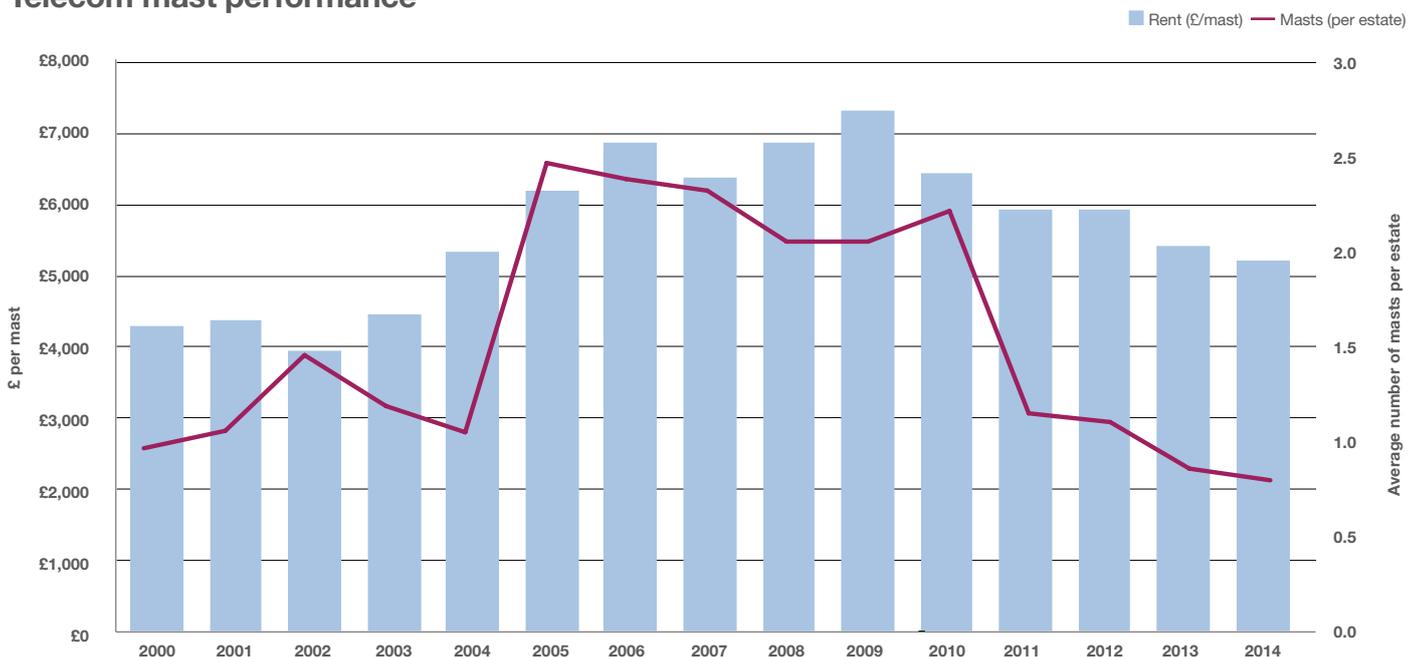
rents and strongest growth is in the southern region.

An analysis of workspace area indicates there may have been a movement between space let for storage and distribution to light industrial. This is not surprising as the two uses are similar and do not require significant expenditure to upgrade. In addition, average rental levels since 2000 have converged with industrial rents now only 20% above storage and distribution rents compared with 50% 14 years ago.

### Telecom masts

Telecom masts have been a useful income stream but the sector has seen rapid consolidation since 2010 with the average number of masts on estates falling from 2.2 to just 0.8 in 2014. Graph 4 illustrates the change in rental values and the number of masts per estate. The number of masts increased from

GRAPH 4  
Telecom mast performance



Source: Savills Research

one per estate in 2000 to 2.5 in 2005 with the numbers during the following five or six years similar. Although, mast rents have fallen since 2009 they are not back to the levels recorded during the early noughties.

In 2014, the rate of decrease recorded for the average rental income from telecom masts over the past four years fell by -3.8% at £5,420 per mast.

Average incomes from telecom masts may have reached the bottom of the trough as industry consolidation is complete, RPI index linked annual growth is ceasing and

there is pressure to find new sites to fill the signal 'black spots'.

### Leisure

On many estates leisure activities are an important source of income. Since 2000 the income from this sector has recorded annualised growth of 9.7% and 6.5% in real terms.

This sector has been under pressure during the recession but there are now signs that the corner has been turned. Average income from all leisure sources on 'All Estates' increased in 2014 by 9.7% to £7.30 per acre. Although

still below the peak of 2010 when it represented 3.4% of gross income.

This sector covers a wide range of activities but opportunities tend to be location driven and it is no surprise that, on average, estates in the South East and South West of England record the highest returns at £12 and £9 per acre respectively.

We expect this sector to continue to be a useful source of income, but new opportunities should be carefully researched.

### Renewable energy

Renewable energy is beginning to make a contribution to estate income. Across 'All Estates' this new income source represents an average of about £1 per acre and £4 per acre on those estates which are actively producing renewable energy. The predominant source is Solar Photovoltaic schemes although biomass, wind turbines and hydro schemes also feature. ■

“Since 2000 the income from the leisure sector has recorded annualised growth of 9.7% and 6.5% in real terms”

Savills Rural Research

TABLE 3

### Average commercial workspace rents

	2014 (£/sq ft)	% change on 2013
 Office	£11.20	21.7%
 Industrial	£4.00	13.2%
 Retail	£15.50	15.8%
 Storage & Distribution	£3.75	34.9%

Source: Savills Research



There is significant growth from commercial workspace rents



Telecom masts sector has seen rapid consolidation since 2010



Average income from leisure sources increased to £7.30 per acre in 2014



Renewable energy is making a contribution to estate income

# Income sectors

## MAPPING OUT REGIONAL INCOME

Survey results on 'All Estates' reveal geographical differences across the various regions

**KEY**

- Agriculture
- Residential
- Commercial
- Leisure



	EAST OF ENGLAND	EAST MIDLANDS	NORTH OF ENGLAND	WEST MIDLANDS	SOUTH WEST ENGLAND	SOUTH EAST ENGLAND
Woodland	0.5%	0.2%	0.0%	-1.7%	0.1%	-0.1%
Sporting	1.0%	1.2%	0.8%	0.9%	1.3%	1.3%
Minerals	4.2%	2.3%	0.0%	0.0%	0.4%	1.3%
Other	1.3%	2.0%	1.0%	0.4%	3.2%	0.8%

Source: Savills Research

## Costs

# EXPENDITURE INCREASES IN 2014

The annual cost of running a rural estate is £96 per acre, an increase of 7.1%

**A**verage total expenditure on 'All Estates' increased by a significant 7.1% during 2014 to £96 per acre with the result of no increase in net incomes as noted on page 5.

Graph 5 below shows annualised increases in costs when adjusted for inflation. It is significant to note that the largest costs, notably repairs and management, have recorded the lowest growth above inflation. Whereas, the smallest individual costs, including insurance, accountancy, legal and rates have increased above inflation.

### Repairs

A 7.9% increase in repair costs was the main factor contributing to higher

costs and represented 21.5% of gross income. By the very nature of repairs, unless an estate has a significant portfolio and a rolling repair programme, annual repair costs tend to fluctuate from year-to-year. Our research shows 30% of all repairs are given out to external contractors often to the benefit of local businesses.

Since 1996 the amount estates spend on property repairs per unit area of the whole estate has almost doubled although this cost has shrunk from 25% to below 22% of gross income. In addition, as Graph 5 below shows expenditure on repairs and improvements has only slightly exceeded inflation. A comparison with the repair and maintenance indices published by the Department for Business, Innovation & Skills confirms that repair spend on rural estates has been in line with the national trends.

### Management

Average management costs across all estates in 2014 increased by 7.5% to just under £27 per acre and

represented 12.6% of gross income. The annual management fees are often linked to rent roll performance and the annualised growth since 1996 of 5% is very similar to that of ASTs (5.4%). However, as a proportion of gross income management costs have been squeezed from 14.4% to 12.6%.

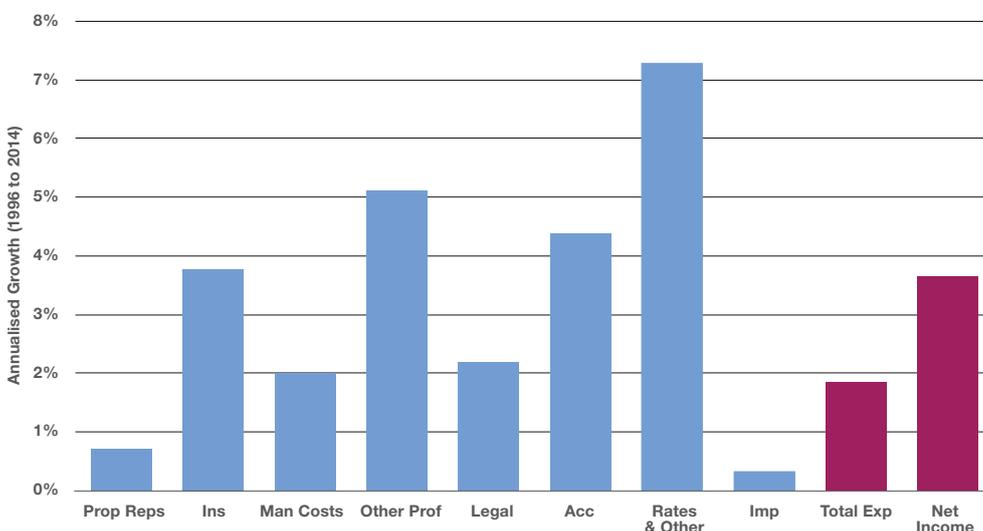
### Insurance

The average amount spent in 2014 on estate insurance increased significantly (22.3%) to almost £7 per acre. To some degree this will reflect the current times in which litigation is more prevalent but also reflects greater build costs due to higher standards of refurbishment including fixtures. Owners are mitigating additional liabilities with increased public liability cover and separate environmental cover.

### Legal

Average legal costs increased by 18.4% to almost £5 per acre in 2014. The proactive approach to restructuring the estate, especially during the recession which focuses the attention on the future, may have contributed to this result. Topics coming under scrutiny and additional professional advice have included investment strategy, debt, succession and IHT planning, joint ventures, diversification and strategic development. ■

GRAPH 5  
Real annualised increase in expenditure (1996-2014)



Source: Savills Research



30% of all repairs are given out to external contractors



Average legal costs increased by 18.4% in 2014

# Asset performance

## TOTAL ESTATE VALUES CONTINUE TO RISE

It is vital to be aware of an estate's asset performance compared to other investments

**A**lthough return on capital is not the top objective for many estate managers, especially where the core estate will be passed to the next generations it is important, particularly since the significant increase in asset values during the past 10 to 15 years, to be aware of an estate's asset performance in comparison to alternative investments.

The average estate is now worth in the region of £35 million and an assessment of performance is useful for estate strategy. In the year to 5th April 2014 the average Total Return for 'All Estates' on all Let Property was 9.5%, the sum of a net income return of 1.2% and capital growth of 8.3%.

This is a stronger result than recorded in the previous year primarily as a result of improved

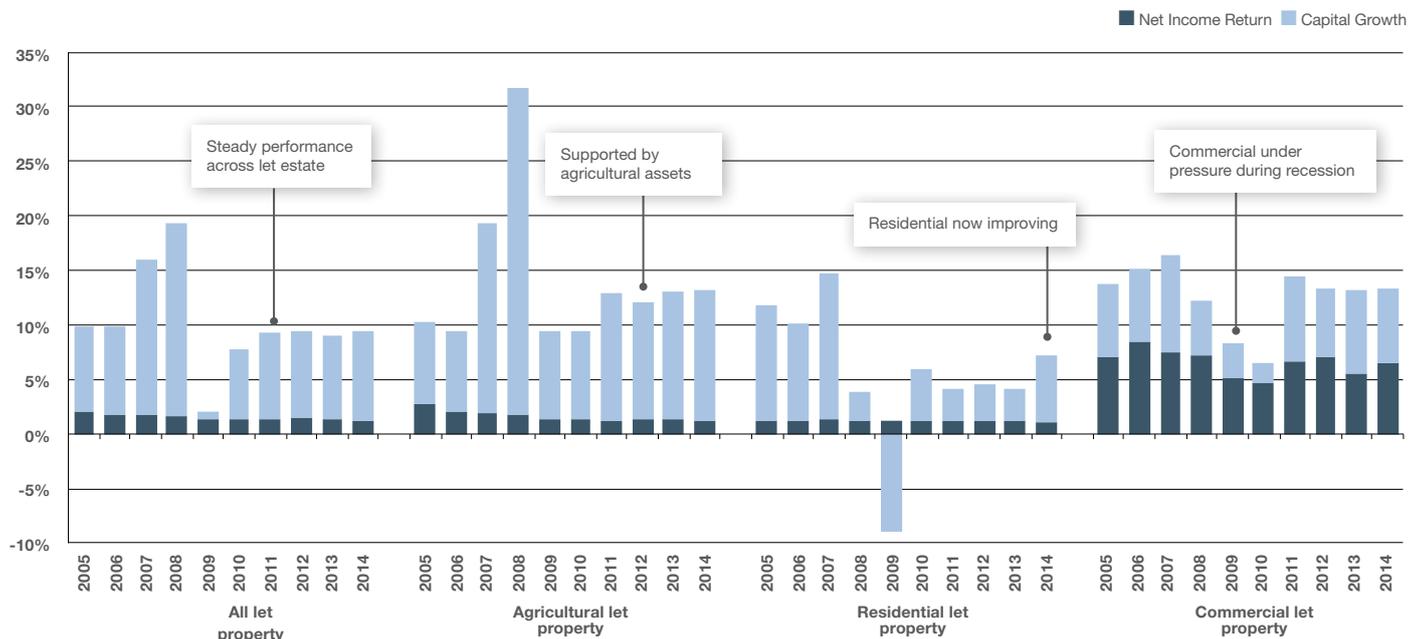
capital growth for residential property.

Farmland continues to contribute a significant proportion to the performance and we see this continuing. Our latest analysis of the farmland market shows that capital growth during the first half of 2014 remained strong, especially for the best quality and has exceeded our expectations.

The average growth for prime arable land across Great Britain during the first half of 2014 at 9.8% was almost four times that recorded for prime central London residential property at 2.5% for the same period.

.....  
 "The average estate is now worth in the region of £35 million"  
 Savills Rural Research  
 .....

GRAPH 6 Investment performance fluctuates with economic cycle



Source: Savills Research

# ESTATES INDEX

## The individual capital values of key components

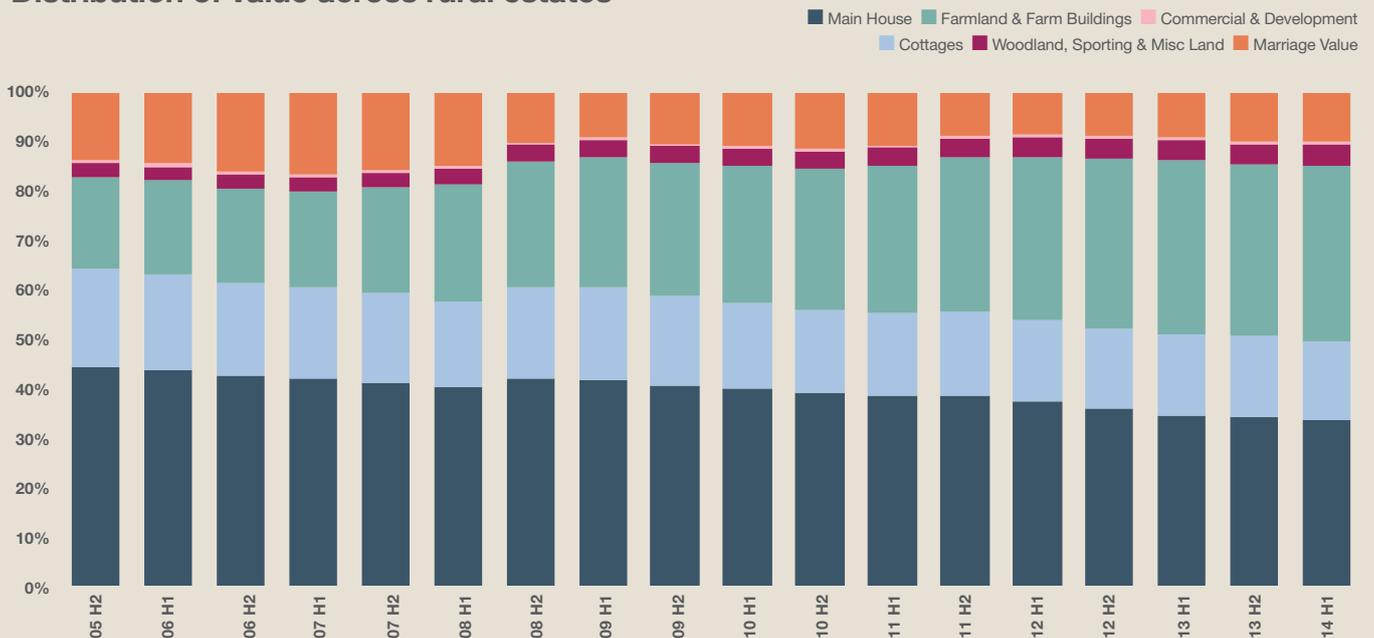
Our 'Estates Index', which examines the individual capital values of the core components of rural estates including marriage value (the premium) also shows that total estate values have increased by 8.0% over the past year with values now 9.1% above their peak at June 2008.

Again, the farmland and farm buildings continue to make a significant and increasing contribution to the total value – from 18.5% in December 2005 to 35.6% in June 2014. Graph 6 illustrates the change in value distribution across the index.

Meanwhile, the main house continues to represent a decreased proportion of total estate value, falling from 44.5% in December 2005 to 33.5% in June 2014. Similarly, marriage value now accounts for 10.0% of the total estate value, compared with 14% in 2005. ■



GRAPH 7  
Distribution of value across rural estates



Source: Savills Research

# Outlook

## GAINING MOMENTUM

Economic recovery will strengthen commercial and leisure opportunities

**The key factors to watch for sustained income and capital growth on rural estates will be:**

- An improved economic outlook
- Rental and trading enterprise growth
- Minimising rental voids
- Reversions (agricultural and residential) to market rents

The general economic recovery is now underway, with GDP expected to show steady positive growth of around 2.5% per year for the next few years. As noted earlier, farm incomes tend to be inversely correlated to GDP growth, and therefore we expect non-farming activity to benefit most from the recovery.

Commercial and leisure sectors are now making significant contributions to gross income and we expect this to continue as the economy gains momentum. However, opportunities in these sectors tend to be location

driven and to maximise success should be carefully researched.

This includes minerals and for estates where this opportunity exists returns can be high. However, across 'All Estates' 2014 recorded the lowest level for over ten years.

As the economy improves, and therefore construction and housebuilding, we expect income from this sector to increase although the rate of growth may be tempered as the difficulty in gaining planning permission for new sites may be a threat to future expansion.

**Conversely, there are a few darker clouds beginning to appear on the agricultural sector horizon. These include:**

- Commodity prices - the outlook is increasingly bearish across the arable and livestock sectors and not only for the remainder of 2014 but into 2015. On arable farms this may be alleviated

by higher yields but as our Arable Benchmarking Survey for harvest 2013 shows the average total cost of production for combinable crops was, at prices 20% higher than current ex farm prices, a significant proportion of crop price.

- CAP reforms, especially the new Greening measures, will have some impact on farm businesses and overall subsidy incomes will be reduced.
- Interest rates – the expected interest rate rise may add pressure to farm cash flows and investment plans.
- The rate of reversionary uplift may slow as many deals have already been negotiated. ■

.....  
 "We expect a slightly weaker agricultural outlook next year"  
 Savills Rural Research  
 .....

### Savills team

Please contact us for further information



**Ian Bailey**  
 Head of Rural Research  
 01797 230 156  
 ibailey@savills.com



**Head of EBS Group**  
 Sophie Barrett  
 01865 269 162  
 sabarrett@savills.com



**South**  
 Simon Peck  
 01722 426 854  
 speck@savills.com



**North & East Midlands**  
 Matthew Watson  
 01904 617 824  
 mwatson@savills.com



**Central England**  
 Brian Gargett  
 01242 548 035  
 bgargett@savills.com



**Julie Baxter**  
 Research Analyst  
 01483 203 492  
 jbaxter@savills.com



**South West**  
 Michael Greet  
 01872 243 255  
 mgreet@savills.com



**West Midlands & Wales**  
 Rhydian Scurlock-Jones  
 01952 239 529  
 rsjones@savills.com



**East**  
 Edward Rout  
 01279 756 821  
 erout@savills.com



**Scotland**  
 Kenny Munn  
 0141 222 5870  
 kmunn@savills.com

## Bespoke client research

**Adding value to your property interests**

The Savills UK Research team was founded in the 1980s and currently operates in every area of real estate. We work with many clients providing them with bespoke research to meet their exact requirements. Our clients come from all segments of the public and private sector.

We provide reports, information and presentations that directly assist our clients to save or make money from real estate projects and which have also actively help to inform policy and shape strategies.

---

## Rural Research

[www.savills.co.uk/research/uk/rural-research](http://www.savills.co.uk/research/uk/rural-research)

UK Farmland Market Q2 2014

International Farmland Focus 2014

Agricultural Land Market Survey 2014



33 Margaret Street  
London W1G 0JD  
020 7499 8644

[savills.co.uk](http://savills.co.uk)

