Estate Benchmarking Survey 2009

Savills Research

savills.co.uk/research

savills

Introduction

This bulletin summarises the results of our 2009 Estate Benchmarking Survey for England, a separate survey is published for Scotland. The survey analyses the performance of the property assets of each participating estate against a benchmark for the 12 months leading to 5th April 2009. Across the UK in the region of 200 estates representing one million acres participate in the survey. This enables subsets of data to be analysed, including at a regional level and by estate size.

Estate structure

Within the survey the average estate structure is 4,300 acres including 48 residential properties and 9,100 sq ft of commercial workspace.

Estate ownership

30% of the estates in the survey are institutionally owned with the remainder in private ownership. The owner is resident on over half of the privately owned estates.

Ownership objectives

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

Investment performance

Understanding the performance of an estate's property assets and how they compare with other assets (property or otherwise) is most important, particularly in the current economic climate. Although agriculture and the rural economy generally tend to be more resilient to recessionary pressure than other sectors, knowing the return from capital invested is useful for strategic and comparative analysis; especially for estates where there are also alternative investments.

Our survey shows that the performance of all assets on rural estates came under pressure during the past year, recording a total return for 'All Let Property' of just 2.4% compared with 19% in 2008. However, when compared to other asset classes, especially mainstream residential and commercial investments, and also equities, the performance of rural estates looks robust and at least remains in positive territory.

Total returns for alternative assets to December 2008:

All Let Residential	-13%
Urban Commercial	-22%
Equities	-30%
Gilts	15%
Forestry	7%

Source: IPD & Savills Research

Graph 1 illustrates the performance of the let sectors analysed in our benchmarking survey. Let agricultural property recorded a healthy 9% return in 2009 although the softening of land values reduced this from the 30% recorded in 2008.

Commercial assets on rural estates also performed well with a total return of 8.6% in 2009, although the performance was largely supported by income rather than capital growth.

Rural residential property, however, gave a total return of -8.2% as a result of capital values falling by -9.4%, but these results are better than for mainstream residential property.

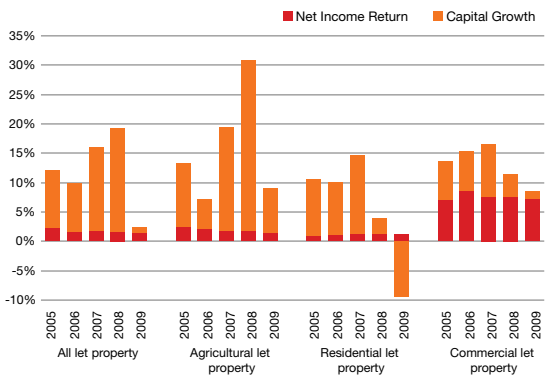
We expect the investment performance to be similar over the next 12 months as lower rates of growth in farmland values are offset by some improvement in residential values.

Income streams

Our research shows that the financial performance of rural estates has remained buoyant and relatively unscathed by the recession (see Graph 2). Average gross income on 'All Estates' increased by 8.3% in 2009 to £178 per acre (£440 per ha). Increases were recorded across all income streams during 2009 but agriculture was the star performer.

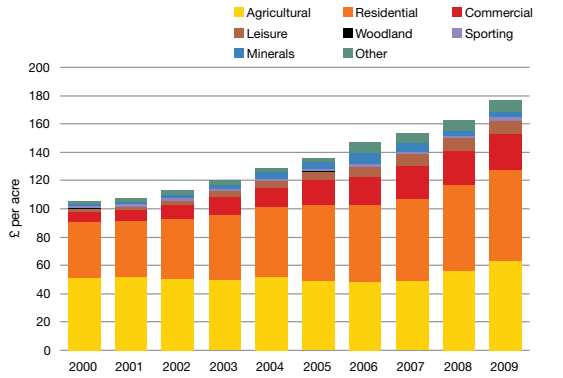
Agriculture contributed 36% of gross income putting it back up to the proportion recorded in 2005, having dropped to under 32% in 2007. The contribution from residential assets slipped slightly to 36% with the proportion of income generated from commercial assets dipping below 15% for the first time in the past two years.

Graph 1
Mixed assets on rural estates support performance



Source: Savills Research

Graph 2
Source of income



Source: Savills Research

savills

Location is often a factor that boosts the potential of some income streams but limits others. Our research shows, as illustrated in Graph 3, that the opportunities outside of agriculture in the southern counties of England enable rural estates to outperform the average.

In the South East of England average gross income in 2009 was almost £238 per acre (£588 per ha) a third higher than that recorded for 'All estates'. Greater levels of rental income derived from residential and commercial lettings was the key difference. In the South West tourism helped boost income in the leisure sector. This sector contributed significantly to the South West estates gross income pushing it up by 9% above the 'All estates' average.

In contrast, the greater reliance on agriculture and the fewer and more disparate areas of high-population density in the eastern and northern counties limited gross income.

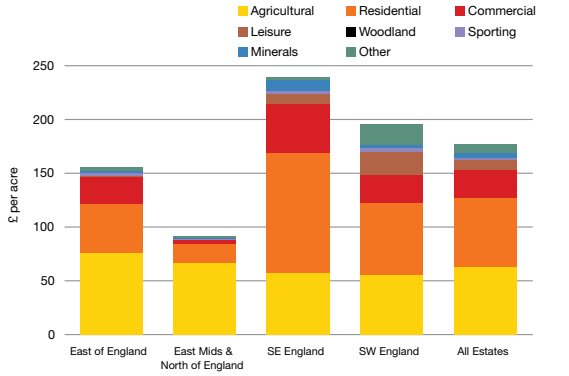
Agricultural income

According to the survey Agricultural Holdings Act tenancy (AHA) rents increased by 16% on all estates during 2009 to £75 per acre (£185 per ha) which follows an increase of 11% in 2008. AHA tenancies traditionally include buildings, fixed equipment and residential property. The majority of this uplift was in the arable sector where average AHA rents increased 20% to £83 per acre (£205 per ha). We expect a further but smaller increase in average AHA rents in the next survey year.

Farm Business Tenancy (FBT) rents increased 4.7% in 2009 to £95 per acre (£234 per ha). The FBT area, as a proportion of the let agricultural area, increased again in 2009 to over 35%.

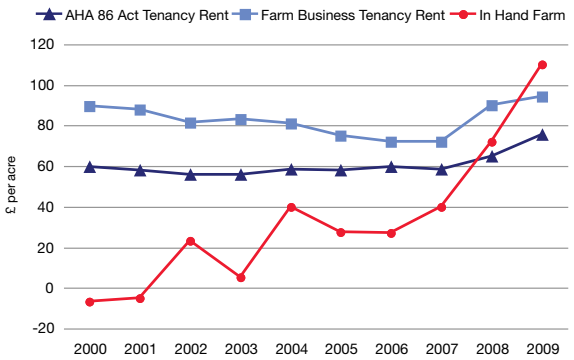
Average in-hand farm incomes (net income after deduction of property repairs, insurance, third party rents and interest on borrowed working capital) increased for the third year in a row to £110 per acre (£272 per ha). They now exceed both AHA and FBT rents for the first time in ten years. It is unlikely that this position will be maintained as profitability comes under pressure from falling commodity prices and rising input costs, but there are benefits, including tax, from farming in-hand rather than letting out the land, but these must be balanced with the risk and the additional capital requirement.

Graph 3
Source of income by region



Source: Savills Research

Graph 4
Agricultural income



Source: Savills Research

savills

Residential income
Residential income continues to increase at a steady annualised rate of 4.1% per year over the past three years. The average rental income, including 5.2% voids, from Assured Shorthold Tenancies (ASTs) was £7,428 per dwelling in 2009. Regulated rental incomes increased by 7% in 2009 to £4,278 per dwelling.

ASTs represented 73.6% of all housing stock in 2009, up from 72.5% in 2008, maintaining the steady upward trend. There was evidence to suggest some pressure on AST rents, with voids increasing from 4.7% in 2008 to 5.2% in 2009. We expect this pressure to continue into 2010 as the current economic climate impacts on voids and rent arrears, making credit control a high management priority.

Our survey recorded average AST rents of more than £9,500 per dwelling in the South East of England in 2009 although these had come back slightly (1%) from the preceding survey year. AST rents fell a significant 10% in the East Midlands and North of England to around £4,800 per dwelling. In contrast, AST rents increased in the East (10%) and the South West (8%) of England to £6,660 and £7,790 respectively.

Commercial and leisure income
Although income from commercial assets increased in 2009, the rate of growth has significantly slowed, recording 4% growth in 2009 compared with an annualised growth of 12% in the three preceding years. Our research shows that this pattern is similar in the leisure sector. This suggests the recession has had a deeper impact on these sectors in the past year, therefore management of existing tenants will be essential in order to keep voids to a minimum.

Average office rents fell by 4.5% in 2009 to £9.03 per sq ft. Softening of rental incomes was also in evidence for let industrial and retail units, which recorded falls of -10.2% to £3.23 per sq ft and -3.2% to £9.72 per sq ft respectively. In contrast, rental income for units let for storage and distribution remained stable (up 1%) at just over £2.70 per sq ft.

Commercial workspace rental levels follow a similar pattern to residential rents with the highest levels being in the South East of England. The only exception were retail units where average rents were highest in the South West of England. Location and quality will be key in the future to ensure low levels of voids.

The income from telecom masts increased 8.4% in 2009 to £7,335 per mast. However, the recent trend of service providers amalgamating and consolidating aerials is likely to see pressure on this income source in the next 12 months.

Net income
Our survey results show that the average net income (before factoring in depreciation, finance, drawings and tax) increased by 6% during 2009 to £102 per acre (£252 per ha) continuing the robust upward trend of the past decade.

The rise in net income was due to a 8.3% increase in gross income but was tempered by a significant increase in property repair costs (see Graphs 7 and 8). This resulted in a 11.6% increase in total expenditure on all estates during 2009 to more than £76 per acre (£188 per ha). This increase was significantly above the annualised increase of 4.5% recorded over the past three years.

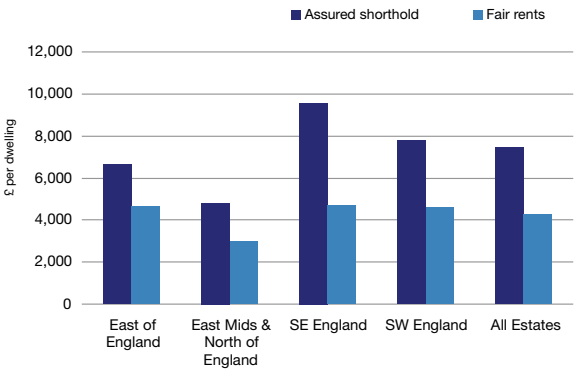
Net incomes across the regions show a similar pattern to gross incomes.

Expenditure
As previously noted, average property repairs increased significantly (22.5%) in 2009 to more than £38 per acre (£94 per ha). Last year we anticipated that this might be the case as the buoyant agricultural sector increased the willingness of estates to again invest in their farms. This is also confirmed by a substantial rise (30%) in the money spent on capital improvements amounting to £24 per acre (£59 per ha) in 2009.

Repairs to agricultural property increased by 65% in 2009 to £7.65 per acre (£18.90 per ha). These repairs were spread across all farm types but the predominantly dairy estates recorded the highest sums spent, which amounted to almost £24 per acre (£59 per ha). Estates with dairy farms spent another £20 per acre (£50 per ha) on capital improvements in 2009.

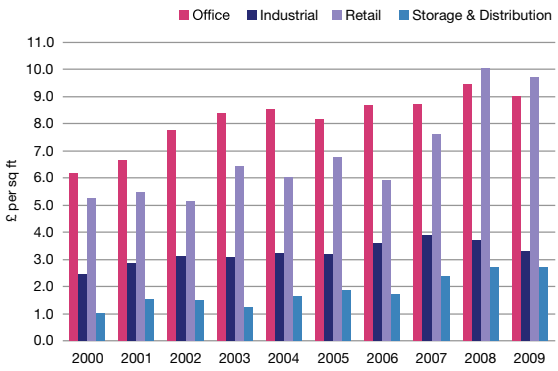
It is likely that next year's results will show repair costs falling back to around £32 per acre (£79 per acre) as

Graph 5
Residential income



Source: Savills Research

Graph 6
Commercial workspace income



Source: Savills Research

savills

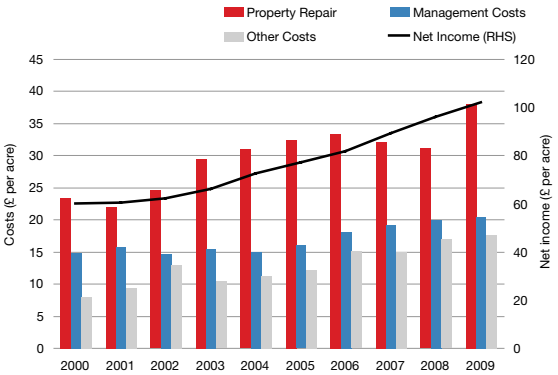
recorded in the previous few years, which will slow the rate of increase of the rolling five-year average (see Graph 8). The five-year rolling average takes out the annual volatility and records an annualised increase since 2000 of 4.9%.

Our research shows there is only a weak relationship between the amount spent on AST property repairs and AST rental income. This suggests that careful planning and targeting of repairs is necessary to maximise returns and that indiscriminate expenditure on repairs does not necessarily guarantee increased income. In addition, a well-maintained property will hold its capital value and will be more saleable if a future need should arise.

Total management costs (cost of estate office plus management fees) continue to increase but were capped below inflation, rising 1.8% in 2009 on the average estate to £20.44 per acre (£50.50 per ha). Our research suggests that savings are being made on management fees, which fell by 4% during 2009 compared with a substantial 10% increase in the cost of running estate offices. Outsourcing this facility may be worth consideration.

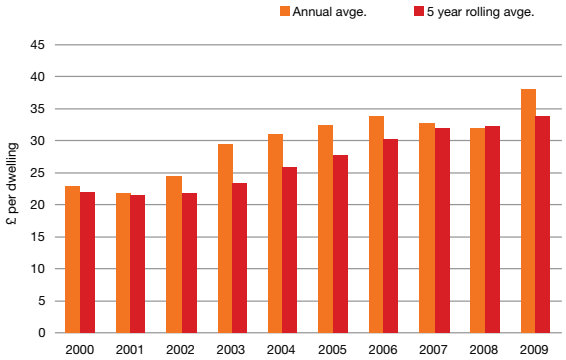
Other estate costs increased 3.4% to £17.58 per acre (£43.44 per ha) in 2009.

Graph 7
Net income and expenditure



Source: Savills Research

Graph 8
Property repairs



Source: Savills Research

Outlook

The results of our 2009 survey show another rise in incomes despite the current economic climate. The diversity of rural estates and the resilience of agriculture to recessionary pressure has been a contributory factor, but the skills and resourcefulness of those who manage rural estates will also have played a part. We expect income to continue to rise although in some sectors it may be more constrained resulting in lower growth than we have recorded historically.

The investment performance of rural estates is likely to outperform alternative assets in the short term. Land values have started to rise, albeit at a slower rate, and residential and commercial assets on estates held their values better than respective mainstream asset classes.

As residential and commercial asset values have dropped considerably from their peak, opportunities exist for landowners to utilise the lower values and transfer assets to their successors.

Another increase, although not of the size recorded this year, in AHA rents is likely to be recorded in next year's survey as the results of 2009 rent reviews are included. In-hand farming incomes will be lower as output prices fall, and this fall will be tempered by lower input prices.

Rents for residential and commercial property will remain under pressure and location and quality of the working environment will be key for those seeking to maintain rental levels and reduce void periods.

Proactive and intensive management will be required to maintain incomes. Participation in our survey is an excellent way of 'taking stock' after a period of steady growth, enabling income sources and costs to be scrutinised and well informed plans to be laid.

Landlords who foster positive relationships with tenants and take the initiative in providing solutions will help to ensure voids and disruption to income streams are minimised. Similarly, landlords need to start planning for changes to NVZ regulation by supporting entrepreneurial tenants by way of capital expenditure. As income becomes under pressure, neighbouring estates should look at co-operating over labour and equipment.

With historically low interest rates and rising energy costs the justification for investment into renewable energy projects is better than ever. Likewise now is the time to consider estate assets as collateral against funding for well researched income generation projects such as domestic tourism and leisure. ■

savills

Rural Estate Management and Consultancy Services

Savills has one of the largest rural estate management and consultancy teams with more than 200 full-time rural professionals operating out of 30 offices. Together the team is responsible for the management of more than two million acres on a day-to-day or consultancy basis.

This report is produced by the Savills Research department, using extracts from our own research and analysis. For more information on the full range of our rural property and business research and consultancy services, please contact Ian Bailey or browse our website at **www.savills.co.uk/research**

For further information please contact:

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

National
Michael Horton
01473 234813
mhorton@savills.com

South West
Mike Pennington
01392 455710
mpennington@savills.com

East
John Wootton
01279 756800
jwootton@savills.com

East Midlands
Paul Ainscough
01522 508948
painscough@savills.com

Central England
Paul Lindon
01865 269154
plindon@savills.com

West Midlands & Wales
Clive Beer
01952 239511
cbeer@savills.com

Scotland
Jonathan Henson
01738 477511
jhenson@savills.com

North
Elizabeth Nelson
01904 617836
enelson@savills.com

South
Philip Gready
01202 856821
pgready@savills.com

Applied Research – Estate Benchmarking Report

Strategic reviews and business plans are essential for the survival and growth of any business. The estate benchmarking survey is an essential tool in the appraisal of a participant's business, benchmarking estate figures against industry norms. The survey and accompanying report are an ideal focus for reviewing management and investment strategy.

- All participants receive an executive summary and detailed report of their results against the average of 'all estates'.

The reports give participants the information they need to identify the current performance of each sector of their business and shows how it is performing against similar businesses and includes analysis relating to:

- The business streams typical to rural estates; agriculture, residential and commercial, analysing the let sectors in detail.
- The financial (income, expenditure and return on capital) and physical aspects of the estates business.

This information enables participating estate owners and managers to highlight the strengths and pinpoint the weaknesses of their business. This analysis is an essential foundation from which a realistic business plan can be built.

Trend data from continuous participation enables participants to determine whether the gap between the performance of their estate and the benchmark is widening or closing. Whilst this may be outside the estate owner/managers control but identifying the opportunities and limitations of the estate is an essential part of a strategic reviews findings.

savills