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Savills World Research
UK Rural

# Estate Benchmarking **Survey**

2015

## **Branching out**
Diversity delivers steady performance

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**This publication**
This document was published in November 2015. 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
- EBS: Estate Benchmarking Survey
- FBT: Farm Business Tenancy
- IHT: Inheritance Tax

**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 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.

**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 Estate Benchmarking Survey.

# Foreword
# THE PERMITTED DEVELOPMENT ROUTE

With diversification vital to a rural estate, we look at the benefits of Permitted Development

**Our survey results demonstrate that those estates which have a range of assets continue to be resilient while farm incomes have been exposed to volatility. Given the importance of diversification, within the 2015 survey we explored the opportunity that changes to General Permitted Development Rights represent for rural estates.**

When introduced within the Town and Country Planning (General Permitted Development) (Amendment and Consequential Provisions) (England) Order 2014, there was an expectation that a number of conversion projects on rural estates, which had not previously been viable, would qualify.

Interestingly, only 6% of estates participating in the Survey have utilised the Permitted Development (PD) route to date.

## Permitted Development

The main factor limiting the use of the Rights by estates is designations (mentioned by 30% of respondents) – any suitable buildings are either listed, in a Conservation Area or an Area of Outstanding Natural Beauty.

Furthermore, 26% of respondents stated that lack of suitable buildings prevented utilising the Rights.

Of those that made applications, 50% have been successful via the PD route. It appears that some Councils are more receptive to applications than others. Also some estates have chosen to complete full planning applications for buildings, which could qualify under PD seeing little financial benefit for doing so (mentioned by 7% of participating estates).

## Significant benefits

However, there are significant benefits of following the PD route. These include no requirement to prove that the building is capable of conversion without major rebuilding and it also removes, in most cases, any potential affordable housing requirement.

In addition, the increased development and housebuilding activity may create substantial capital performance for some.

Another area of significance to the future viability of rural estates is the lack of high speed broadband. We believe that it is probably the most important single factor to unlock future rental growth. Estates are innovative and several are finding ways to overcome this obstacle without waiting for the Government's promise – see page 07 for details.

Rural estates, which have a range of property assets, are in a strong position to weather the current pressures on farm incomes while maximising the opportunities to generate income from non-agricultural assets and enterprises.

"Rural estates are in a strong position to weather the current pressures on farm incomes"
Savills Rural Research

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## SUMMARY

Estate incomes recorded steady growth while farm incomes have been exposed to volatility
See page 04

The income from agricultural and residential sources is above its three-year average
See page 05

Revenues from commercial and leisure activity help to spread the income risk
See pages 06/07

Annual expenditure of running a rural estate has remained constant (as % of gross income)
See page 08

The economic outlook for rural estates remains positive despite weaker agricultural prospects
See page 10

# Estate Incomes

# DIVERSITY DELIVERS STEADY PERFORMANCE

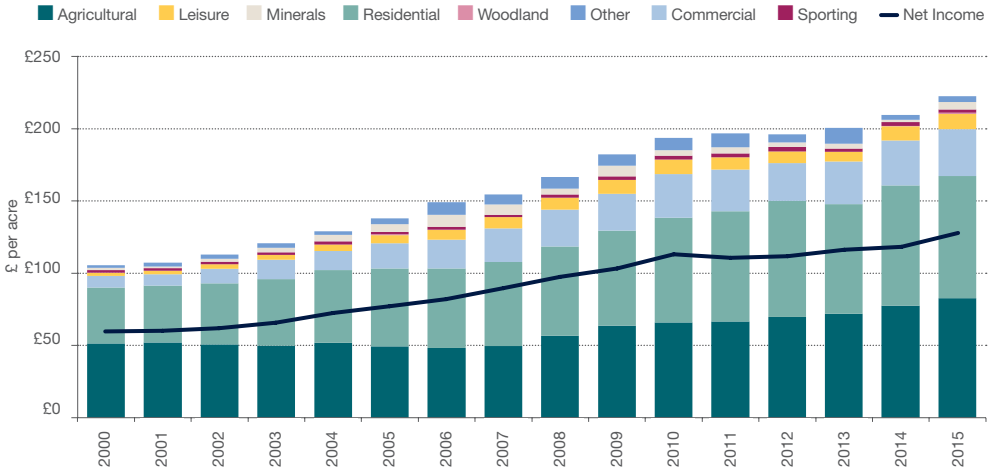
Estate incomes have seen steady growth, while farm incomes have been exposed to market volatility

**The 2015 EBS results show that average gross incomes on 'All Estates' increased by 6.2% to £223 per acre across the whole estate (including woodland).**

This represents the second year of steady growth following relatively stable incomes between 2010 and 2013.

GRAPH 1

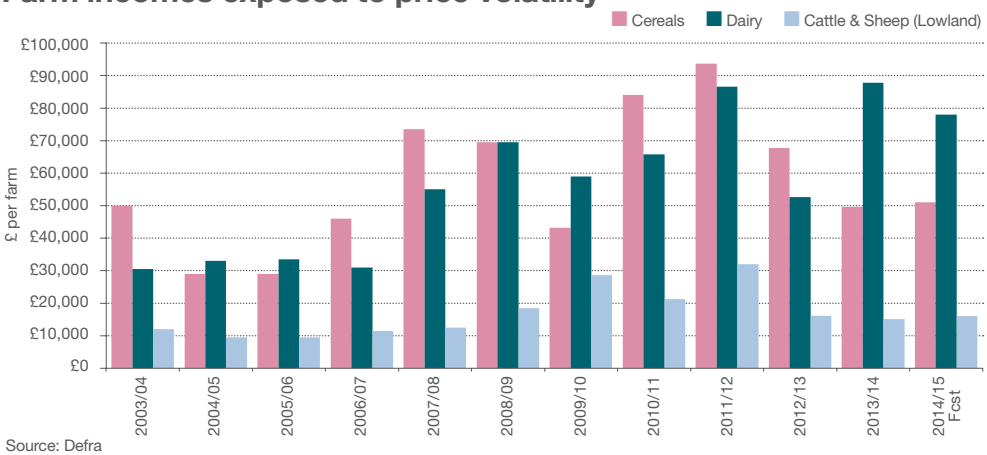
## Relatively steady growth for estate gross incomes




Source: Savills Research

GRAPH 2

## Farm incomes exposed to price volatility




Source: Defra

The long-term trend in estate incomes (gross and net) has delivered a steady upward performance (see Graph 1). The diversity of assets (agricultural, residential, commercial and more recently renewable energy) has helped spread risk and been a key factor in this performance. Income from trading enterprises on 'All Estates' contributed just under 10% of gross income.

In contrast, farm incomes (see Graph 2) have recorded some significant swings from year-to-year being exposed to commodity price volatility.

In addition, agriculture is more exposed to exchange rate fluctuations as commodities trade on a global platform and CAP subsidies are calculated in Euros. Cereal farm incomes have been around 15 times more volatile than estate incomes since 2000.

Average net incomes on 'All Estates' (before depreciation, finance, drawings and tax) have followed a similar trend to gross incomes since 2000 (see Graph 1) and have averaged 57% of gross income peaking at almost 60% during the recession.

Although total expenditure increased in 2015 by 3.9% (to £95 per acre) it was capped well beneath the growth in gross incomes, resulting in net income growth of 8%, to £128 per acre. See page 08 for more information on estate costs.

Our research shows that agriculture's contribution to gross income on 'All Estates' is now 37%. The weak performance of other assets in the recession increased agriculture's contribution; especially at a time when there was zero or little growth in total gross incomes.

We expect that this will now start to reverse as the general economic upturn favours residential and commercial asset performance.

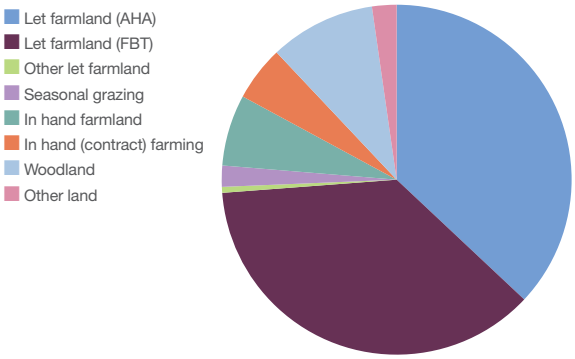
# Agriculture & Residential

# COMBINED INCOME EQUALS 75% OF GROSS INCOME

Three-quarters of estate area is let and broadly split between AHA and FBTs

GRAPH 3

**'All Estates' Land Use**




Source: Savills Research

**Total income from all agricultural sources has increased by 6.8% in 2015, which is above the three-year average of 5.9%. It now stands at £83 per acre and represents 37% of gross income.**

Income from the let agricultural portfolio across 'All Estates' increased by 4.2% to £101 per acre. The let area on average accounts for three-quarters of the average estate and is now broadly split equally between AHAs and FBTs with a very small acreage of other tenancy agreements.

In-hand farming operations (including contract farming agreements) are found on a relatively small proportion of rural estates' lowland area and on average represent just over 10% of the total area with the remainder being woodland and other land (Graph 3).

## Residential

Income from the residential portfolio on the average estate increased by 1.5% in 2015 to almost £85 per acre and contributed 38% of gross income.

In 2015, average AST rents across 'All Estates' increased by 2.1% to just over £9,000 per dwelling. Voids on AST properties were around 5% and rental growth has slowed slightly compared with the average three-year annual growth of 2.9% from 2012-2015.

On most rural estates the residential portfolio includes a wide range of property types. These range from large manor houses to one-bedroom flats and accordingly average rental levels per dwelling range from being in excess of £25,000 per annum at the top end to around £6,000 for the smaller properties.

Average regulated rents increased by 5.7% to almost £5,600 per dwelling.

# Commercial, Leisure & Renewable Energy

# SPREADING THE INCOME RISK

Commercial and leisure incomes can make an important contribution across the estate

**The commercial and leisure sectors, and increasingly renewable energy, make a significant contribution to estate incomes and help in spreading income risk across the estate.**

## Commercial

Income from commercial property on 'All Estates' increased by 4.8% to almost £33 per acre and represented 15% of gross income, but these results conceal a wider range with location, quality and the dependability of services such as broadband speed (see panel on page 07), a key factor in determining the rents achieved. Graph 4 shows the range of average workspace rents across 'All Estates'.

This is a sector which has expanded over the past 15 years as redundant farm and estate buildings have been converted to workspace – including offices to storage. Total workspace area on 'All Estates' is now almost nine times more than in 2000, increasing from just 1,250 sq ft to over 11,100 sq ft. In 2000, 38% of estates had some workspace and this has grown to 53% of 'All Estates' in 2015.

## Leisure income

Leisure activities make an important contribution (around 5%) to estate incomes. In 2015 this sector contributed just over £10 per acre, an increase of 3.9%. Location is key with the highest contributions to estate incomes in the South East and South West of England of 8% and 5% respectively.

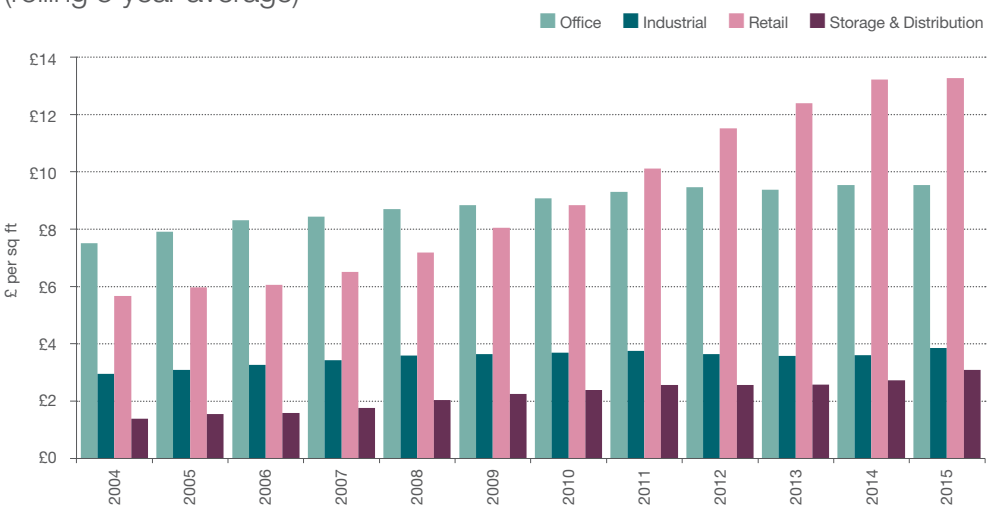
Commercial workspace continues to increase across 'All Estates'

South East & South West make highest contribution in terms of leisure activities

Renewable energy is making a growing contribution to income

GRAPH 4

**Average commercial workspace rents on rural estates**
(rolling 5 year average)




Source: Savills Research

## Other income

■ **Telecom mast** rents are still under pressure, with average rents falling by -3.6% to £5,315 across England in 2015. However, the range of rents achieved is wider and depends upon the degree of consolidation per mast. We anticipate that the downward pressure on average rents will start to ease as the consolidation of the past few years slows.

■ **Renewable energy** is making a growing contribution to estate income. Across 'All Estates' in 2015 the average income derived from renewable energy (mainly solar PV) amounted to £2.10 per acre or 1% of gross income; almost double the £1.20 per acre recorded in 2014.

■ **Sporting** income fell by -16% in 2015, to £2.37 per acre. Our Shoot Benchmarking Survey (see panel on right) shows that the 'average' shoot has only broken even in two of the past five years and that the break even point is very susceptible to small changes in costs and bird return rates.

## SPORTING

### Shoot benchmarking

■ 2014/15 was a better rearing season which helped raise the average return rate (% of released birds shot) to 42%, from 40% in the previous season.

■ Shoots have increased their charges per bird over the past five seasons (by 10% for pheasants and 18% for partridges), and by more than their costs have risen.

■ Total costs fell by -3% over the past five years but the saving was in fixed costs as average variable costs increased by 10% over the same period.

■ Shoots are positive about next season with 22% increasing bird numbers and over a third have more confirmed bookings now than at the same time last year.

## BROADBAND CASE STUDY

### Slow speeds affect commercial lettings and rental levels

A recent snapshot survey of our estate managers suggests that slow broadband is now an issue in some locations in letting residential and commercial property on rural estates.

Nearly 70% of respondents confirmed slow broadband is a constraint on letting residential property with the corresponding figure being 80% for commercial workspace.

The survey also showed that in many cases a poor speed deters potential tenants from even making an appointment for a viewing and, where space is let, on average residential and commercial workspace rents are 16% and 25% respectively lower where the broadband speed is slow.

The Government's proposals to 'unleash the full potential' of the countryside which were announced by Defra in August in its first 10-point Rural Productivity Plan included a pledge to provide extensive, fast and reliable broadband – making superfast broadband available for 95% of UK premises by 2017 and working with providers to address challenges in reaching the final 5%.

For many rural landowners and businesses this is too late and, while the Government reviews how to reach the final 10%, an increasing number of rural estates, communities and individuals are taking the initiative to find their own solutions.

While the start-up costs are significant – around £20,000-£30,000 in the first year – annuity income from those using the broadband is a valuable new income stream and of course increases the likelihood of finding tenants for the commercial space.

Two estates which have successfully developed their own broadband schemes are The Alscot Estate in Warwickshire and The Rushmore Estate in Dorset.

The Alscot Estate near Stratford-upon-Avon established the network South Warwickshire Broadband in 2014 which has led to a diverse range of businesses occupying premises and a 100% occupancy rate. The tenants all have access to upload and download speeds of up to 36Mb per second plus voice over internet protocol (VOIP) and cloud services.

The Rushmore Estate in Dorset via Wessex Internet is now able to offer wi-fi to residential and commercial tenants as well as providing all the estate businesses with good quality broadband. The two annual festivals held on the estate have complete connectivity and a telephone solution incorporating staff, trader, artist and public wi-fi and voice over IP (VoIP) phones, which enables the organisers to operate an eTicketing system.

# Costs

# EXPENDITURE PROPORTION REMAINS CONSTANT

The annual cost of running a rural estate is £95 per acre, equal to 43% of gross income

**Total expenditure on 'All Estates' increased by 3.9% during 2015 to £95 per acre, amounting to 43% of gross income. This was at a higher rate than the annualised growth of 2.5% recorded over the past three years but significantly below the increase in gross income highlighted on page 04. Property repairs and management costs represent over three quarters of total costs and almost a third of gross income. However, the remaining individual costs should not be ignored as they amount to 25% of costs.**

## Property repairs

The largest cost on 'All Estates' is property repairs which amounts to almost half of all expenditure and a fifth of gross income. Property repairs increased by 9.2% to £46 per acre and were a significant factor in the overall cost rise. Property repairs tend to vary from year-to-year for individual estates depending on repair requirements and major refurbishments when properties become vacant.

The five-year rolling average, to iron out the annual variability, shows that property costs have increased steadily by an annualised 4.5% per year over the past 10 years, although the rate of growth has slowed during the past three.

## Management and professional fees

Average management costs across 'All Estates' increased by 3.2% in 2015 to £27 per acre, representing 28% of all costs and 12% of gross income. Since 2000 the annualised growth in management costs has been slightly higher than for property repairs and ahead of inflation at 5%, although the rate of growth has slowed over the past few years.

Management costs represent the annual cost of general estate management including the cost of running the estate office and do not include one-off professional fees which might include a strategic business or property maintenance review. These 'other professional' fees amounted to £5.35 per acre and 2% of gross income in 2015.

Legal fees on 'All Estates' amounted to £3.88 per acre in 2015, similar to the past two years.

**3.9%**
Increase in total expenditure across 'All Estates' during 2015

**28%**
Percentage of average management costs across 'All Estates' during 2015

**9.2%**
Increase in property repairs across 'All Estates' during 2015 (equal to £46 per acre)

# Investment performance

# RURAL ESTATES REPRESENT A GOOD INVESTMENT

Rural estates continue to perform well compared with other asset classes

**Rural estates continue to perform well with an average total return for 'all let property' in 2015 of 8.3%, the sum of a net income return of 1.4% and capital growth of 6.9%. Although the investment performance has slipped slightly from the annualised figures of 9% and 10% over the past five and ten years respectively. It has performed well compared with other asset classes, especially when considering the additional tax and ownership benefits.**

"Income generation and retention of the core estate are key objectives for estate owners"
Savills Rural Research

Over the past few years the overall performance has been driven by the agricultural and commercial assets.

As noted on pages 04 and 05 of this report the variety of assets on rural estates is fundamental to its income and investment performance. Although income generation and retention of the core estate are the key objectives for many estate owners and managers, we believe it is useful to understand the investment performance of the assets especially in the context of alternative investments.

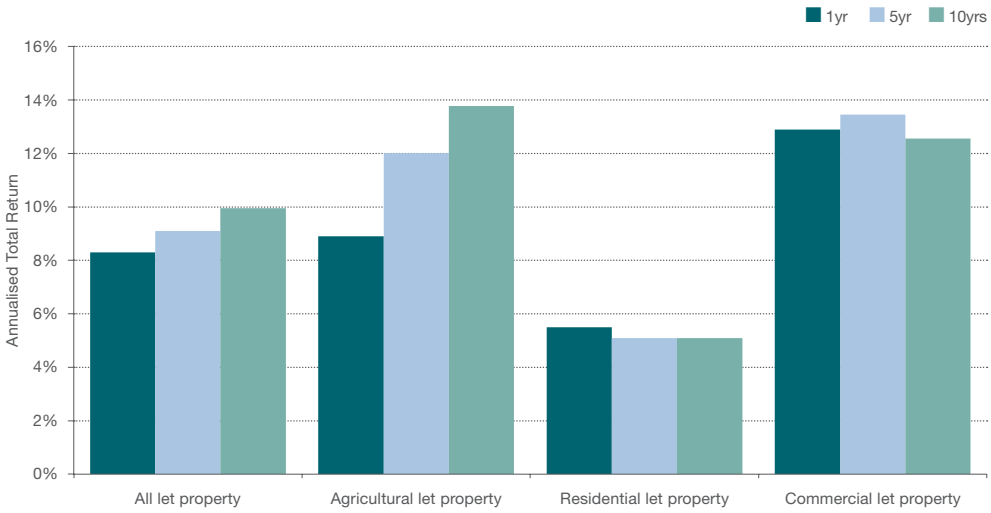
Overall performance is driven by agricultural and commercial assets

**8.3%**
Average total return for 'all let property' in 2015

A variety of assets is fundamental to income and investment performance

GRAPH 5

**Annualised Total Returns by Rural Estate Sectors**




Source: Savills Research

# Outlook
# A POSITIVE PROSPECT

Rural estates are in a strong position to weather current pressures on farm incomes

**The economic outlook for rural estates remains positive despite weaker agricultural prospects. We expect, in at least the short term, the income from the agricultural sector to come under pressure as low commodity prices across most sectors feed through into reduced farm profits and therefore rents.**

There is also a greater risk than at the start of the year of farmland values rising more slowly than they have done in the past five years, again mainly due to lower commodity prices. This would be a fundamental change in the market and may lead to lower total returns from farmland in the short to medium term.

On the plus side the economy is continuing to improve and household spending remains robust as subdued inflation, record low interest rates and strong sterling supports consumer sentiment. This should improve the outlook for leisure enterprises on estates and the steady recovery progress of the past three years should continue.

The let residential sector on estates will benefit from increased demand from private renters and we expect continued growth in the residential rent roll. Savills research forecasts that the number of households in the private rented sector will increase by 1.2 million by 2019; this represents a 24% increase on 2014 levels.

There will always be some uncertainty, especially surrounding political issues; the EU referendum and devolution (country and regional) will be two key areas to monitor.

In August 2015 the Government published a 10-point plan for boosting productivity in rural areas, of which connectivity to the wider economy was a key theme.

High speed broadband is probably the single most significant factor to unlock further rental growth and opportunities, across the residential, commercial and leisure sectors, on rural estates where connectivity is poor.

We believe that rural estates, which have a range of property assets, are in a strong position to weather the current pressures on farm incomes whilst maximising the opportunities to generate income from non-agricultural assets and enterprises.

In addition, the increased development and house-building activity may create substantial capital performance for some.

> "On the plus side the economy is continuing to improve and household spending remains robust" Savills Rural Research

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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

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UK Farmland Market Q3 2015
International Farmland Focus 2014
UK Agricultural Land Market Survey 2015

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