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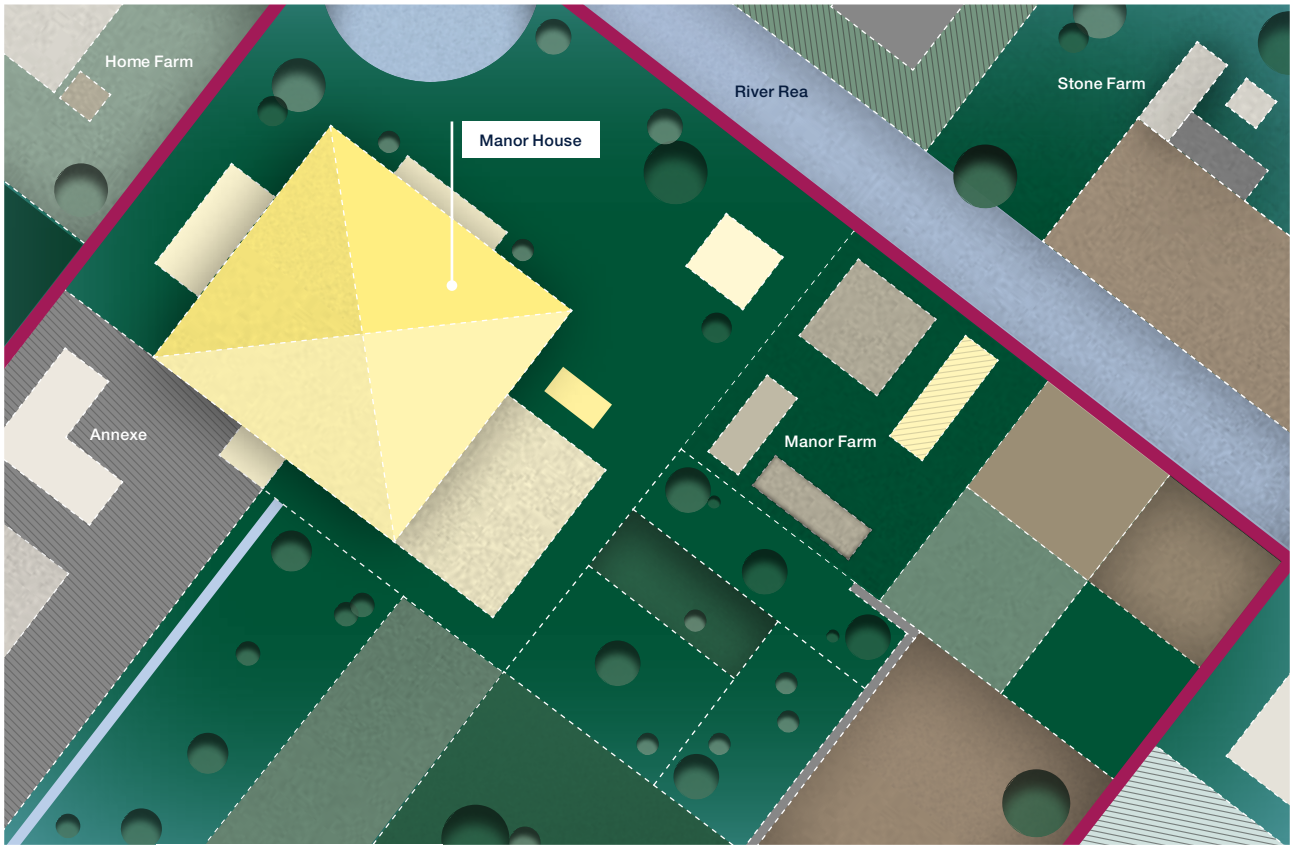
Spotlight | 2017

Estate Benchmarking Survey



Summary In response to economic pressures and the need to spread risk, estates are developing alternative income streams alongside, and complementing, their core business

Agricultural and residential lettings remain the bedrock of rural estates, delivering, on average, 80% of gross income.

Rural estates have increased commercial workspace more than three-fold since 2000. However, there has also been a reduction in land area and number of residential properties.

Through proactive management, estates are developing new income streams. Commercial, leisure and renewable enterprises are becoming significant income contributors.

There have been major changes to occupancy in the agricultural and residential portfolios. Estates have shifted from traditional and regulated occupancy to tenancies at market rents.

Almost one-third of estates have holiday accommodation, such as camping and caravans. A similar proportion open their house or garden, while 25% host weddings and receptions.

This report is based on more than 100 estates in England and Wales, and provides a clear focus on the areas in which estate performance can be improved. The estates team also provides additional services, such as supplementary benchmark comparisons and portfolio analysis. For more information, or to be part of the next survey, please contact a member of the team on page 8.

Moving with the times

In the face of Brexit uncertainty and changing agricultural policy, resilience and adaptability are key for the continuing success of our rural estates

"Our exit from the EU is less than 18 months away and yet, while Government has confirmed that overall support for farming will continue until 2022, we have not seen the small print. No trade deals have been done and negotiations with the EU have yet to commence. Whatever the outcome, we can only continue to assume that the implications for the businesses that we manage will be significant.

In these uncertain times, understanding the key drivers of a business and its strengths and weaknesses has never been more important. Benchmarking is an essential tool: where we have applied this to estates that we manage, it has given us a clear focus on the areas of performance we need to pay particular attention to.

It is a pleasure to publish the English results of our 2017 *Estate Benchmarking Survey*. These show us that across the average estate, income has grown at about the rate of inflation, with costs generally remaining under control. However, pressure on margins can only be expected to build now that inflation has topped 3% and pressure on wage growth continues.

The agriculture and residential sectors continue to be the bedrock of rural estates delivering, on average, 80% of income. The future performance of the former will rely on the outcomes of Brexit and the new British Agricultural Policy. The latter continues to see good growth in income in most regions of the country, as demand remains strong, though associated costs have tended to creep upwards as Government Regulation takes hold. While there is no choice but to comply, careful planning should help control these costs.

One of the key factors to the resilience of estates has been the diversity of asset class and the ability to adapt and take advantage of opportunities.

Diversifying from agriculture, where this has been possible, should reduce the reliance on farm incomes at a time when support is likely to seep away in most areas.

Identifying new income has got to be a strategic focus, with evidence coming through in our survey of a shift towards new sources of income, including renewable energy, commercial and leisure.

We await the outcomes of Brexit negotiations and the content of the Agriculture Bill scheduled to be published next year. In the meantime, we should remain positive about the fortunes of our sector, which has shown resilience in the past and an innate ability to adapt to changing circumstances."

Rupert Clark Head of Estate Management
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Business benchmark
The mix of assets on a rural estate are wide-ranging and there is no single solution to success. However, the following issues apply across all asset mixes and operating systems, and addressing these questions will provide a useful framework to maintain the competitiveness of a business.

1 What facilities do you need to invest in and how will you fund them?
2 Can you improve your return through improved product and marketing to deliver what your customers (or tenants) want?
3 Are you maximising your skills and labour resource? Would you be better off paying someone else and adding value to other parts of the business?
4 What are the threats to your business? How robust is demand for your produce?
5 Do you have the skills on the estate for the global agriculture industry of the future?
6 Are you benchmarking your performance and constantly trying to identify ways to improve results?
7 Is the estate right for you and your family, and what are your plans for inheritance?


Markets


Costs


Innovation


Diversification


Risk

Standing still is not an option

While the agricultural and residential sectors will continue to dictate performance, rural estates need to evolve. Developing new income streams is essential

There have been significant changes in both the structure and occupancy of rural estates since our first benchmarking survey in 1996. Back then, the average area of an estate was 6,600 acres. Today, it's down one-third to 4,400 acres.

There has been a similar reduction in the number of residential properties during the same period – from 82 to 55. However, this decrease has slowed in recent years.

By contrast, there has been a significant increase in the area of commercial workspace on estates. Since 2000, the average area has gone up more than three-fold, from 3,750 sq ft to in excess of 12,500 sq ft.

Regional variations

There are regional differences in the structure of estates. The smallest, on average, are in the South East, but they have one of the largest areas of commercial workspace and highest residential rental values driven by the opportunities created by proximity to London. When it comes to commercial space, the average split across England between office, industrial and storage and distribution is roughly 20%, 40% and 40% respectively.

However, there is diversity across the country. In the South East and South West, retail is predominant, while office use dominates in the North and is significant in the East Midlands and South East.

Estate structure* Location and a diversity of property assets offer a mix of opportunities

	East of England	East Midlands	North of England	SE England	SW England	West Midlands	England
Land (acres)	3,200	5,200	5,300	3,000	4,800	5,000	4,200
Number of houses	41	28	79	53	52	45	50
Commercial workspace (sq ft)	8,900	2,500	18,200	15,300	9,800	7,000	11,239

Source Savills Research **Note** *Average over the past five years

Move to market rents

In addition to estate structure, there have also been significant changes to occupancy in the agricultural and residential portfolios.

In the past 20 years, we have seen a shift from traditional and regulated occupancy to tenancies at market rents as property has become available following assessment of staff needs against the economic returns from the housing portfolio.

This has also resulted from changing tenancy structures from AHA to FBT, introduced in 1995, where there are no successors to sitting tenants. FBTs tend not to include residential properties and are often limited to land and buildings.

In the past 20 years, we have seen a shift from traditional and regulated occupancy to tenancies at market rents

Occupancy overhaul Addressing the economic returns from the estate's assets

	1996	2006	2017
Agricultural: proportion of estate acreage			
AHA	67%	53%	42%
FBT	2%	21%	36%
Residential: proportion of housing stock			
AST	25%	44%	58%
Regulated	31%	18%	10%
In-farm tenancies	28%	23%	18%

Source Savills Research

Change: a positive impact on the bottom line

Across the regions, agricultural and residential assets still provide the core income for rural estates. Proactive management must continue to draw income from a greater range of assets

The structural change across rural estates over the past 20 years suggests proactive management of the property assets to increase income and reduce risk. This has been done by disposing of poor-performing assets, such as land and residential properties, and starting new income streams by developing commercial workspace and diversifying into alternative enterprises (see page 6).

Results from our 2017 *Estate Benchmarking Survey* show that average gross income across all estates in England rose by 2% to £230 per acre. Although estates are drawing income from a range of assets, core income (80%) comes from agricultural and residential assets.

Costs and net income

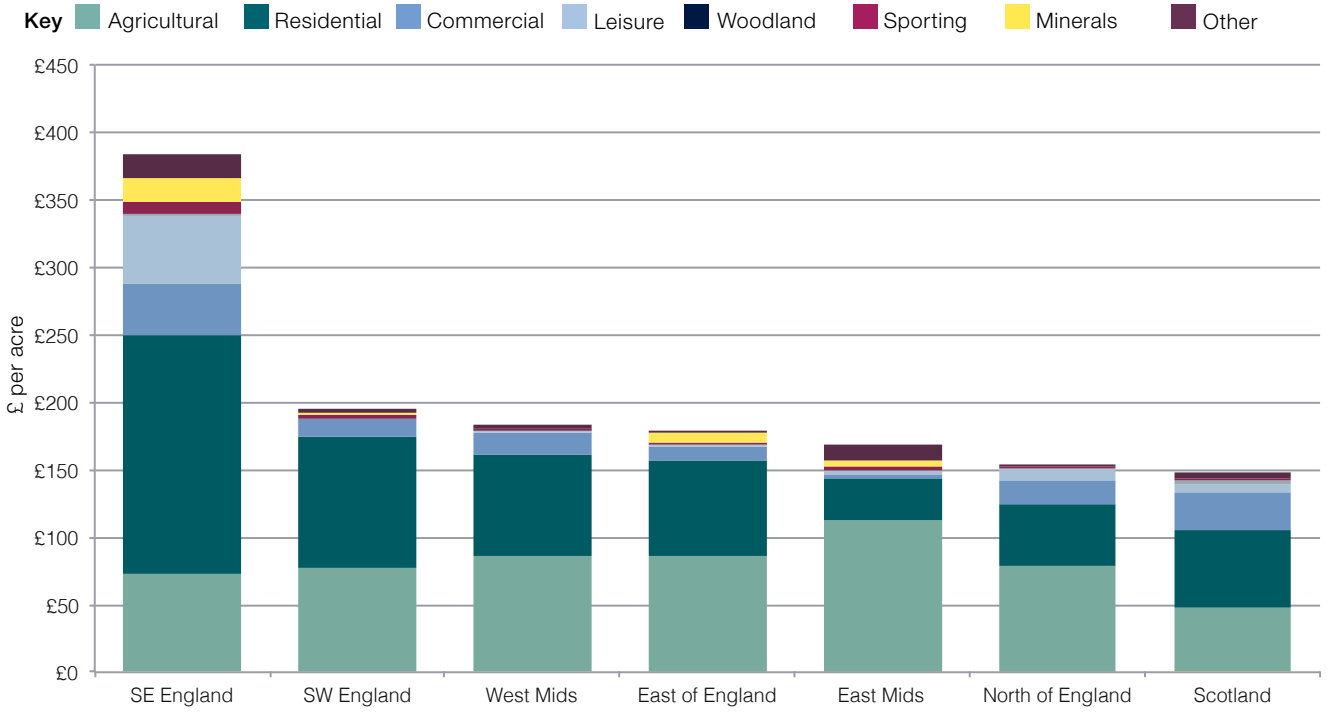
Our research shows that, as a proportion of gross income, average costs across England have remained under control (see table right). Net incomes have averaged 55% of gross income over the past five years.

Costs as percentage of gross income*

Property repair	22.1%
Management	12.0%
Other professional	2.7%
Insurance	3.0%
Legal	1.8%
Accountancy	1.8%
Rates and other costs	1.2%
Total expenditure	**44.5%**

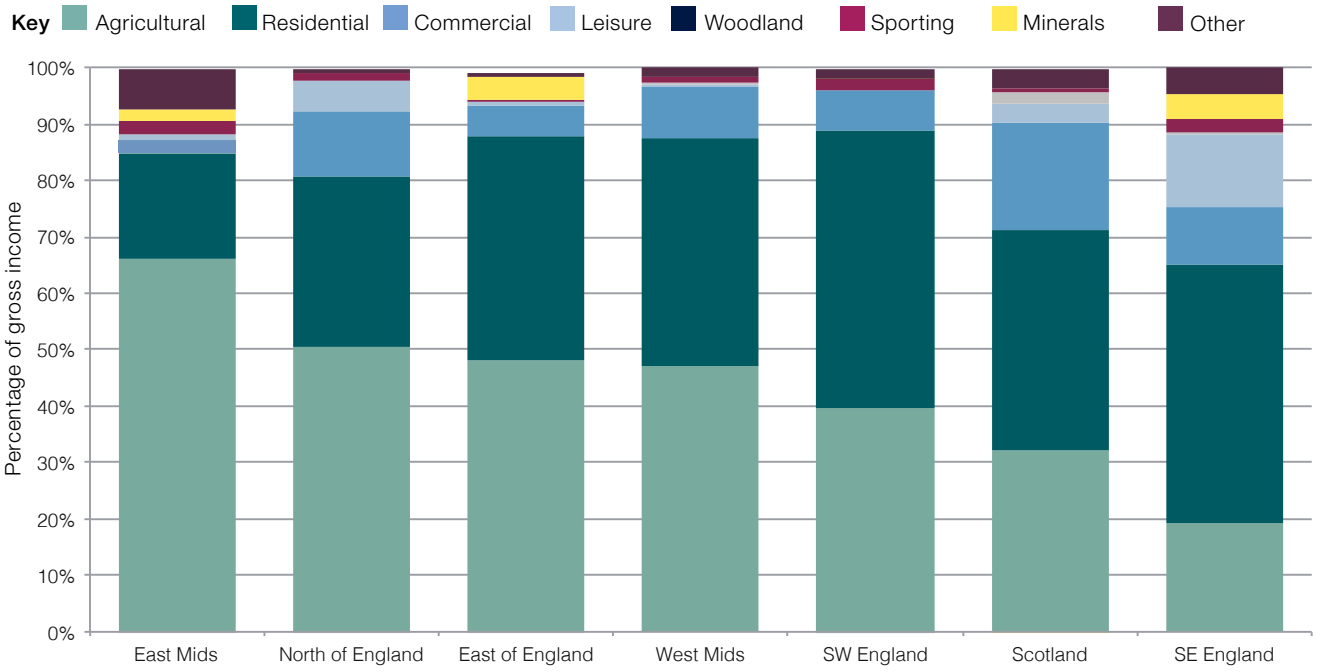
Source Savills Research **Note** *Five-year average to iron out volatility

Income source by region Agricultural and residential assets still make up core income



Source Savills Research

Income source by region The proportion of income derived from agriculture depends on the strength of markets for other assets



Source Savills Research

Agricultural income

The chart (above) shows the range of contributions that agriculture makes to estate income – from 20% in the South East of England to 66% in the East Midlands. These contributions, at a regional level, are related to the strength of the markets for the other sectors, with variations at estate level depending on the mix of assets. The threats of Brexit are mitigated where the contribution of other income streams is high.

The table (right) shows average agricultural passing rents and growth across England as reported in our 2017 *Estate Benchmarking Survey*. More information on rents can be found in our *Agricultural Rents Survey* and *Scottish Estate Benchmarking Survey* 2017. For details, go to: www.savills.co.uk/research/uk/rural-research.aspx

Average agricultural rents There is also a range across soil and enterprise types

	2017 £/acre	Annualised % (3 year)	Annualised % (5 year)
AHA	£89	4%	5%
FBT	£121	4%	6%

Source Savills Research

Residential income

Residential property provides a core income source for estates. The average assured shorthold tenancy rent across England is £9,800 per dwelling. Again, there is significant regional variation depending on location (proximity to large centres of population) and demand. The highest average AST rents, at £13,500 and £10,500 per dwelling, are in the South East and East of England respectively. In the more remote areas, average rents are significantly lower (£7,800 in the East Midlands).

Average annual residential rents by house type across England range from around £25,000 for a large, detached five- or six-bedroom house to around £7,200 for a one- or two-bedroom flat.

Average residential rents AST rental growth is weaker for larger properties

	2017 £/dwelling	Annualised % (3 year)	Annualised % (5 year)
AST	£9,800	3%	3%
Regulated rent	£6,000	4%	5%

Source Savills Research

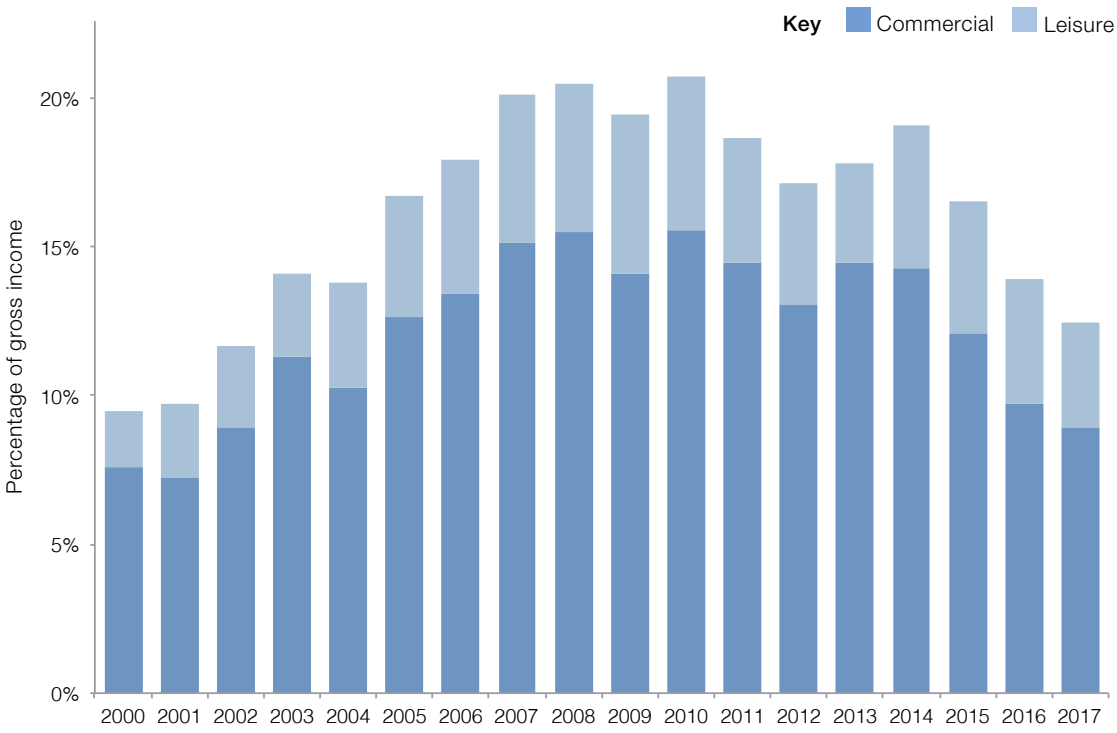
Driving resilience into estate income

Estates are improving growth through greater diversification of assets, adding commercial, leisure and renewable energy enterprises to the traditional mix

As we have already noted, agriculture and residential lettings remain the bedrock of rural estates, delivering, on average, 80% of the gross income.

When it comes to alternative income streams and diversification, commercial, leisure and renewable energy enterprises make a significant contribution (see below). However, income from commercial and leisure is more closely correlated to the general economy than the agricultural economy. Different skills and mindsets are required to make a success of these enterprises.

Commercial and leisure Income is closely correlated to the general economy



Source Savills Research

Renewable energy Revenue (in £/acre) represents almost 2% of gross income and is increasing in a similar pattern to the growth of commercial and leisure in the 2000s

2014	2015	2016	2017*
£1.16	£2.07	£2.65	£4.25

Source Savills Research **Note** *Where estates are actively generating renewable energy, this increases to £10.88 per acre (2017)

Alternative income streams

There has been a trend for farms and estates to focus on the development of income from other assets alongside, and complementing their core business including woodland and minerals. This is being driven by economic pressure, markets and the need to spread risk, especially with the uncertainties surrounding the outcomes of Brexit. With question marks over both the future of farm support and world-trade arrangements, income streams other than the traditional agricultural ones will be vitally important.

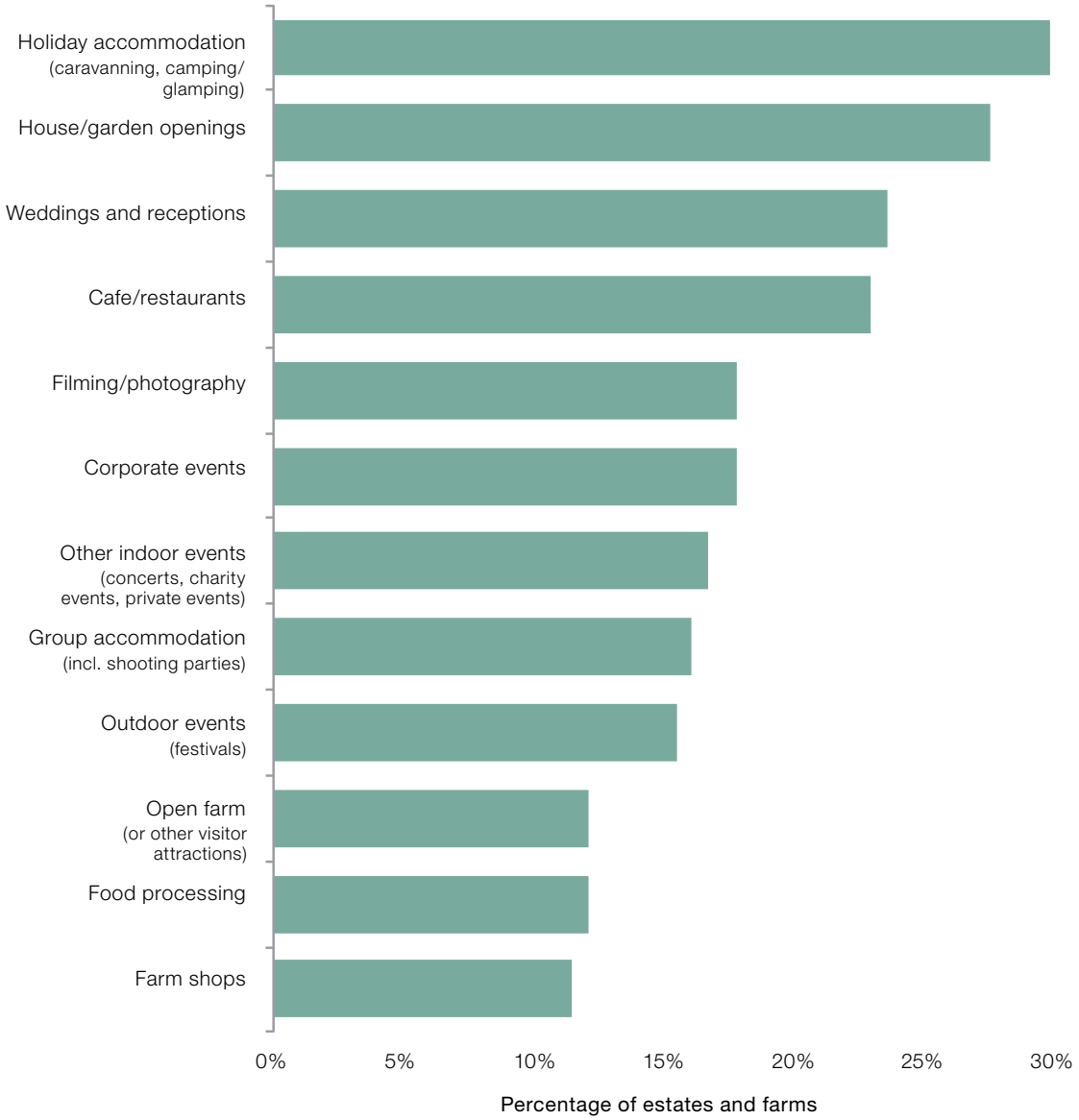
Our *Estate Benchmarking Survey* shows that, on average over the past five years, trading enterprises (including in-hand farms) contributed just 8% of gross income on all estates across England. This is in stark contrast to the situation in Scotland, where trading income represented 18% of gross income over the same period. This suggests that political interference in land ownership has made landowners north of the border more reluctant to let their holdings.

Our research shows that almost one-third of farms and estates have holiday accommodation (including caravans, camping and glamping). A similar proportion open their house or garden, a quarter host weddings and receptions, and more than 10% operate a farm shop (see below). Other popular choices include cafes and restaurants, filming and photography, and corporate events.

The majority (70%) currently have trading incomes below £100,000 and, of these, 16% are at the start-up stage, 17% have been trading for less than three years, while the remaining two-thirds are mature businesses.

Our survey shows that some of these enterprises have grown significantly; 20% had incomes between £100,000 and £500,000 and the remaining 10% were turning over more than £1 million per year.

Camping to cafes Diversified enterprises on farms and estates by popularity



Source Savills Research

Glossary and footnotes

This publication
This benchmarking survey was published in November 2017. 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 and tables. We have used a standard set of notes and abbreviations throughout this publication.

Review
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. There is a separate survey for Scottish estates.

Estate structure
The average estate structure for those estates participating in the survey is:
- 4,400 acres
- 55 residential properties with an average density of 15 houses per 1,000 acres
- 12,700 sq ft of commercial workspace with an average density of 2,700 sq ft per 1,000 acres

Estates range in size from less than 1,000 acres to more than 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, and then by return on capital and environmental stewardship.

Abbreviations
AHA Agricultural Holdings Act
AST Assured Shorthold Tenancies
FBT Farm Business Tenancy

Rural estate management team
For more information about this survey, contact your local representative

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