# Estate Benchmarking Survey 2011

Savills Research

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**The trend over the past decade of a steady increase in net incomes on rural estates in England has faltered. The 2011 results of our Estate Benchmarking Survey show that higher costs have outweighed the increase in gross income.**

Our 2011 survey results use the financial records of the year to 5 April 2011 – a year of global economic uncertainty, since when there has been little respite. However, agriculture and the rural economy have often proved to be relatively recession proof and our outlook, detailed at the end of the bulletin, remains positive. Holding diverse property assets is the key to optimizing performance, but land managers must remain agile and receptive to opportunities, this will help to ensure incomes are maximised and costs are kept in check to avoid further erosion of net margins.

## Income

The 2011 survey results show that gross income increased again, although the rate of growth was weaker than in recent years. In the year to April 2011 average gross income on 'All Estates' rose by 4% to £197 per acre (£487 per ha) as shown in Graph 1.

This rise lagged behind the 5.6% annualised growth recorded over the past three years and likewise failed to keep up with inflation, which was running at about 5% during the 2011 survey period.

The 2011 growth was however, above our modest 2% growth forecast and reflected continued strength in the residential and commercial (mainly offices) sectors. As discussed opposite, location is the key to performance in these sectors.

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### Regional analysis

Our regional analysis, now in its third year, shows significant variations in income streams between the English regions (Graph 2). This location analysis provides estates with a direct comparison against the average of benchmarked estates in the same region and provides valuable management information on which to base any change in policy. Taking advantage of local opportunities is fundamental to the long-term performance of rural estates.

Income generated from agriculture contributed to strong performances in the East Midlands and the North, where gross income growth was 6.7%. The West Midlands followed with growth of 5.5%. In contrast, gross income growth came under pressure in the South East (1.2%) and the South West (-0.1%) of England.

Income from residential and commercial property once again dominated in the South East of England. There average gross income was almost 25% higher, at £244 per acre (£603 per ha), than the average of 'All Estates'.

In the South West of England, income from the leisure sector contributed 8% of gross income in 2011, although slightly lower than in 2010, this is still double that recorded for 'All Estates'.

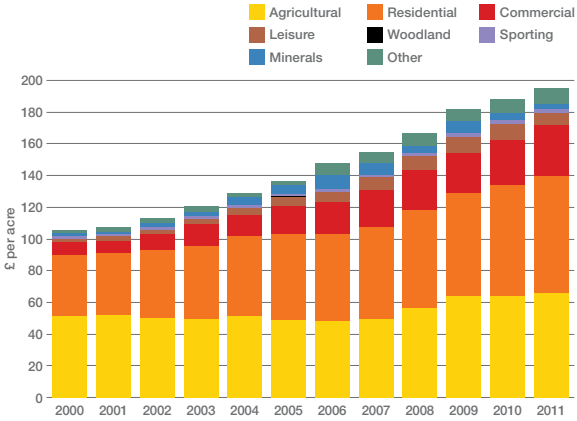
### Size band analysis

Closer analysis of the survey results; by size band reveals that the average gross income per acre reduces as the estate size increases. The larger the estate, the higher the proportion of total gross income from agriculture.

The average gross income for estates between 1,000 and 5,000 acres was £208 per acre (£514 per ha) in 2011 with agriculture contributing 32% of gross income. Whereas estates over 10,000 acres recorded an average gross income of £131 per acre (£324 per ha) with agriculture contributing almost 60%.

Net incomes followed a similar trend. However, research shows the larger estates (+10,000 acres) outperformed in terms of net income growth, compared to the average of 'All Estates'.

**Graph 1.**
**Some pressure in 2011 on recent growth trends**




*Source: Savills Research*

**Graph 2.**
**Regional income streams**


*Source: Savills Research*

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**Agricultural income**
Strong commodity prices helped strengthen the incomes of in-hand farming enterprises, especially on arable systems; and agricultural rents continued to rise. The increased volatility of commodity prices, the upward trend of input prices, especially energy and fertiliser and the forthcoming CAP reform will create some uncertainty in the future.

Across 'All Estates' the income derived from all agricultural sources increased in 2011 by 2% to £65 per acre (£161 per ha). This sector contributed 33.5% of gross income, which was slightly less than in 2010.

**Agricultural rents**
During 2011, Agricultural Holdings Act (AHA) tenancy rents for 'All Estates' strengthened by 2.4% to £70 per acre (£173 per ha). Similar to last year most of the uplift was concentrated in the livestock sector, where average dairy AHA rents increased 11.4% to £81 per acre (£200 per ha). Those on sheep and beef farms increased by 10% to £55 per ace (£136 per ha).

Farm Business Tenancy (FBT) rents for 'All Estates' increased by 7% in 2011 to £89 per acre (£220 per ha). The FBT acreage as a proportion of the total rented area again increased in 2011 and now represents over 40% of the let agricultural area.

We expect to see continued growth, as some particularly high rents are being tendered for FBT ground in traditional livestock areas, while FBT rents for arable ground remain relatively static. AHA rent reviews, particularly in livestock areas are seeing significant increases as there is an increasing acceptance that farmhouses and cottages are a 'material consideration' in rent reviews.

In 2011 average in-hand farm incomes (net income after deduction of property repairs, insurance, third party rents and interest on borrowed working capital) and contract farming incomes increased 19% to £110 per acre (£272 per ha) across all regions and farm types.

**Residential income**
Residential income increased in 2011 by 5.9% to contribute £74 per acre (£183 per ha) to the average estate. This represented 38% of gross income.

Average annual rental income for Assured Shorthold Tenancies (ASTs) on 'All Estates' increased 5% during 2011 to £8,300 per dwelling. This maintains the steady above inflation growth recorded during the past three years. Average rental levels were highest in the South East of England at over £10,700 per dwelling (see Graph 3).

AST occupancy represented 76% of all let housing stock on the average estate in 2011. This was a slight increase last year; continuing the steady upward trend seen over the past 12 years.

Average regulated rents on 'All Estates' increased by 4.3% to £4,750 per dwelling in 2011. The current climate of high inflation presents an opportunity to review rents and close the gap with ASTs.

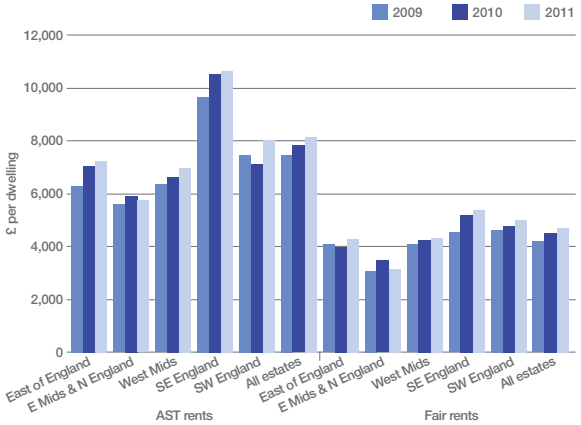
Increasing numbers of would-be homeowners are being forced into the rented sector as stringent mortgage lending criteria and high deposits push home ownership out of the reach for many. For rural estates these factors present a real opportunity to capitalise on the increased demand for remand accommodation both in terms of higher market rents for existing stock and the creation of more housing through the conversion of redundant farm buildings as planning rules are relaxed.

**Commercial and leisure income**
Income generated from the commercial and leisure sectors on rural estates stabilised in 2011 at 20% of gross income. The majority of this income was derived from the commercial sector, which contributed £32 per acre (£79 per ha) or 16% of gross income. All leisure enterprises contributed 4% of gross income which equated to around £7.50 per acre (£18.50 per ha).

Average office rents on 'All Estates' recovered by 5.7% in 2011 to almost £10 per sq ft - back to a similar level recorded in 2008 (Graph 5). Location is the key to rental values with the highest rents achieved in the South East of England (almost £13 per sq ft).

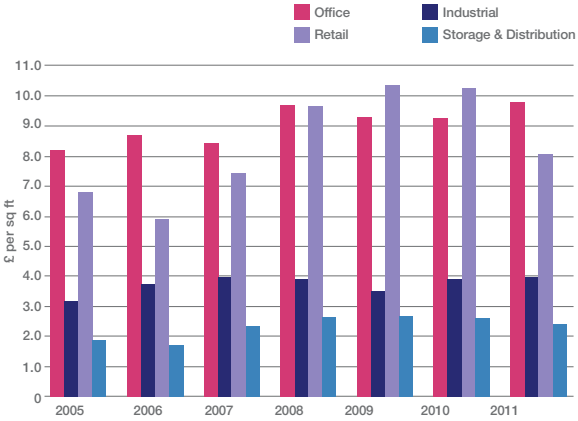
Other workspace (retail, industrial, storage and distribution) rents generally came under pressure in 2011 and remained similar to 2010 (see Graph 4), with little or falling rental growth as businesses reacted to the effect of the continuing economic climate.

**Graph 3.**
**Residential rents across the regions**




*Source: Savills Research*

**Graph 4.**
**Commercial workspace rents**




*Source: Savills Research*

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The recovery in office rents suggests rural locations are preferred, in some cases, to urban environments. Improving rural broadband networks may also have a positive effect on rural rents.

In 2011, average rental income from telecom masts on 'All Estates' fell by -9% to £5,900 per mast continuing the decline in income following the 2009 peak of £7,300 per mast. We expect this trend to carry on as telecom operators amalgamate and site sharing continues.

**Other income**
Income from all other sources, which include woodland, sporting, minerals and wayleaves, amounted to £14.86 per acre (£36.72 per ha) in the 2011 survey year and represented 7.5% of gross income. Woodland remains a sector, from which it is difficult to achieve profitability through diversification.

These include renewable energy, carbon sequestration, other commercial and leisure enterprises. With rising energy costs, it is no coincidence there is increasing demand for firewood, which on some estates is proving lucrative once again.

## Investment performance

Our research shows a continued improvement in the investment performance of rural estates in the year to 5th April 2011. The average total return from All Let Property across 'All Estates' was 9.3% (net income 1.3%, capital growth 8%). See Graph 5.

Capital growth of 11.7% for farmland boosted overall performance, which was up from the 9% recorded in 2010. In contrast, capital growth for residential property dipped in 2011 to 2.9% compared with 4.8% in 2010 reflecting the sluggish performance of this sector.

The performance of rural estates remains competitive against alternative investment assets when annualised over three, five and ten year periods despite the recovery of commercial property, equities and gilts during 2010.

## Net Income and Expenditure

Our 2011 survey results show that the average net income (before depreciation, finance, drawings and tax) fell by -0.3% to £108 per acre (£267 per ha) as costs, mainly from property repairs increased, wiping out the increase in gross income (see Graph 6).

In the southern regions of England, the pressure on net incomes was greater. Net incomes decreased by -10.2% in the South East and -1.6% in the South West. In contrast, the eastern and northern regions recorded above inflation increases in net income.

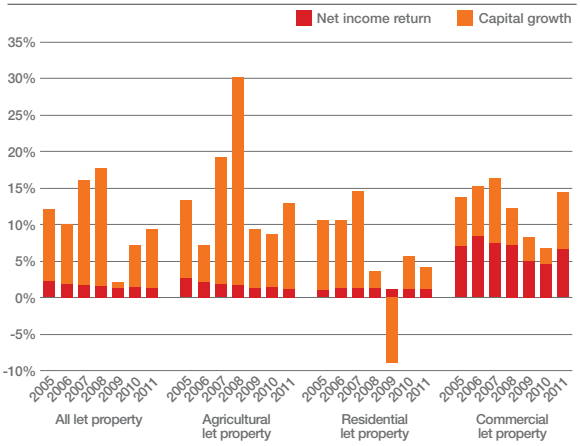
**Expenditure**
Total expenditure on 'All Estates' rose to just over £89 per acre (£221 per ha) an increase of 9.5%. As material costs have increased significantly, average property repairs increased by 14% across 'All Estates' to £45 per acre (£111 per ha) and represented half of total expenditure or 23% of gross income.

Total management costs (cost of estate office plus management fees) increased 5% in 2011 to £24 per acre (£60 per ha) on the average estate representing 12% of gross income. Running at around the level of inflation the increase in management costs was slightly lower than the 6% annualised growth recorded over the past three years.

Other estate costs increased 6% to £21 per acre (£51 per ha) in 2011. These included insurance which increased a significant 9.5% to £5 per acre (£12.35 per ha) and legal fees which averaged £4.50 per acre (£11.11 per ha) up almost 30% on 2010.

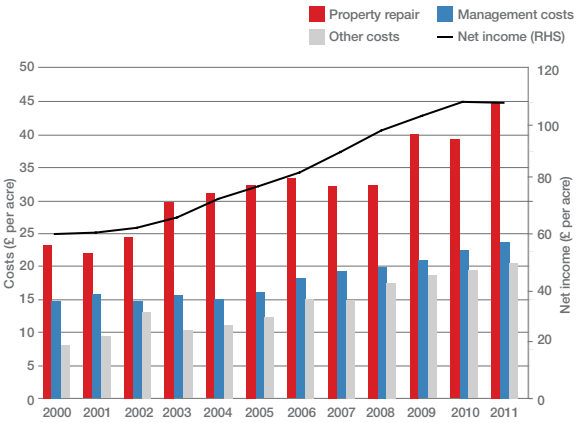
Insurance increases have followed some stringent reviews with insurers, who in many cases have insisted on valuations, culminating in significant increases in sums insured. Legal costs have also increased as specific advice on employment and tenancy matters has proved necessary. ■

**Graph 5.**
**Investment performance**




*Source: Savills Research*

**Graph 6.**
**Net income and expenditure**




*Source: Savills Research*

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## Outlook

The 2011 survey shows the current economic climate has had some impact on the financial performance of rural estates. Inflationary pressure and increased property expenditure have eaten away at the bottom line.

We expect over the next two years, as illustrated in Graph 7, average gross incomes to increase each year but they may struggle to keep pace with inflation. Our forecasts anticipate modest average rental income growth (passing rents) across all sectors along with a continuing shift to market rents (FBTs and ASTs) in the agricultural and residential sectors in line with past trends.

A tight control on costs and targeted property expenditure will ensure that net incomes remain positive.

The current demand in the residential rental markets, especially those close to highly populated locations, may boost incomes from the housing stock with higher rents, lower void periods and real opportunities to convert more properties to market rents.

We are in uncertain times and there are potential threats, which may impact further on some sectors of the market. These include the continued difficult economic climate and austerity measures, the volatility of farm input and output prices, which directly affect profits, and the current reforms of the CAP.

However, there is optimism regarding the future of agriculture and the rural economy, as food security, renewable fuels and a realisation that environmental benefits must be rewarded are now firmly on the government's agenda at a national and global level.

"The opportunity for rural businesses to generate energy and income from renewable energy sources is significant."

Our Benchmarking Survey results show that little income is currently derived from woodlands and these potentially offer opportunities including:

- Biodiversity offsetting
- Renewable energy
- Carbon sequestration
- Income generation from leisure & forestry activities

In addition, the opportunity for rural businesses to generate energy and income from renewable energy sources is significant. Just 13% of estates surveyed confirmed the completion of an energy audit.

**Balfour Matrix**

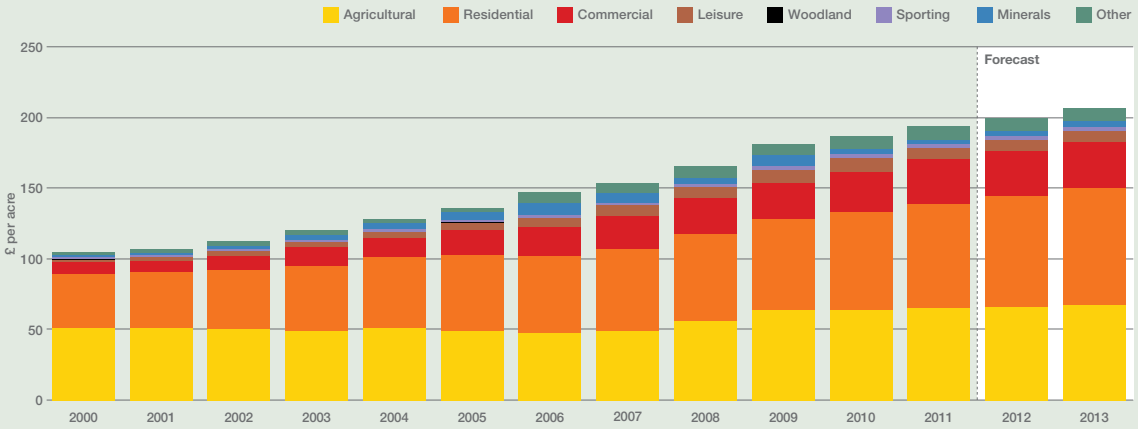
This year Savills launches a new service, the Balfour Matrix, which compliments the Benchmarking Service. It has been developed with leading tax advisors and cross references the data captured in the Benchmarking Survey against the key tests identified by HMRC as being necessary to extend relief from IHT over assets on estates that traditionally fail to secure any relief at all, such as let properties or the principal house.

"Having the level of detail required already within our Survey, it seemed obvious to utilise it for some seriously valuable tax planning for our clients" says Michael Pennington, Chair of the Estate Benchmarking Group.

"The Balfour Matrix, working with our Estate Benchmarking service, will enable landowners to assess whether they meet the tests required to secure Business Property Relief from IHT across their whole estate, or more importantly to consider whether it is possible to do so with a little planning or restructuring. We are very proud that our Estate Benchmarking Survey can be used to help our clients plan pro-actively to mitigate future IHT liabilities."

Contact **Ian Bailey** or **Simon Dixon-Smith** for more information about the Balfour Matrix.

**Graph 7.**
**Current economic factors may dampen short-term performance**




*Source: Savills Research*

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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**

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# Applied Research: Estate Benchmarking Survey

**Estate structure**
The average estate structure for those estates participating in the survey is 4,400 acres and includes 49 residential properties and 10,400 sq ft of commercial workspace. Sizes of estates within the survey range from below 1,000acres to above 20,000 acres.

**Estate ownership**
Institutionally owned estates represent a quarter 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 and income generation remain the key objectives for the owners of these rural estates 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 2011 survey sees some minor changes in data presentation to link 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), which is a wider relief than Agricultural Property Relief.

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