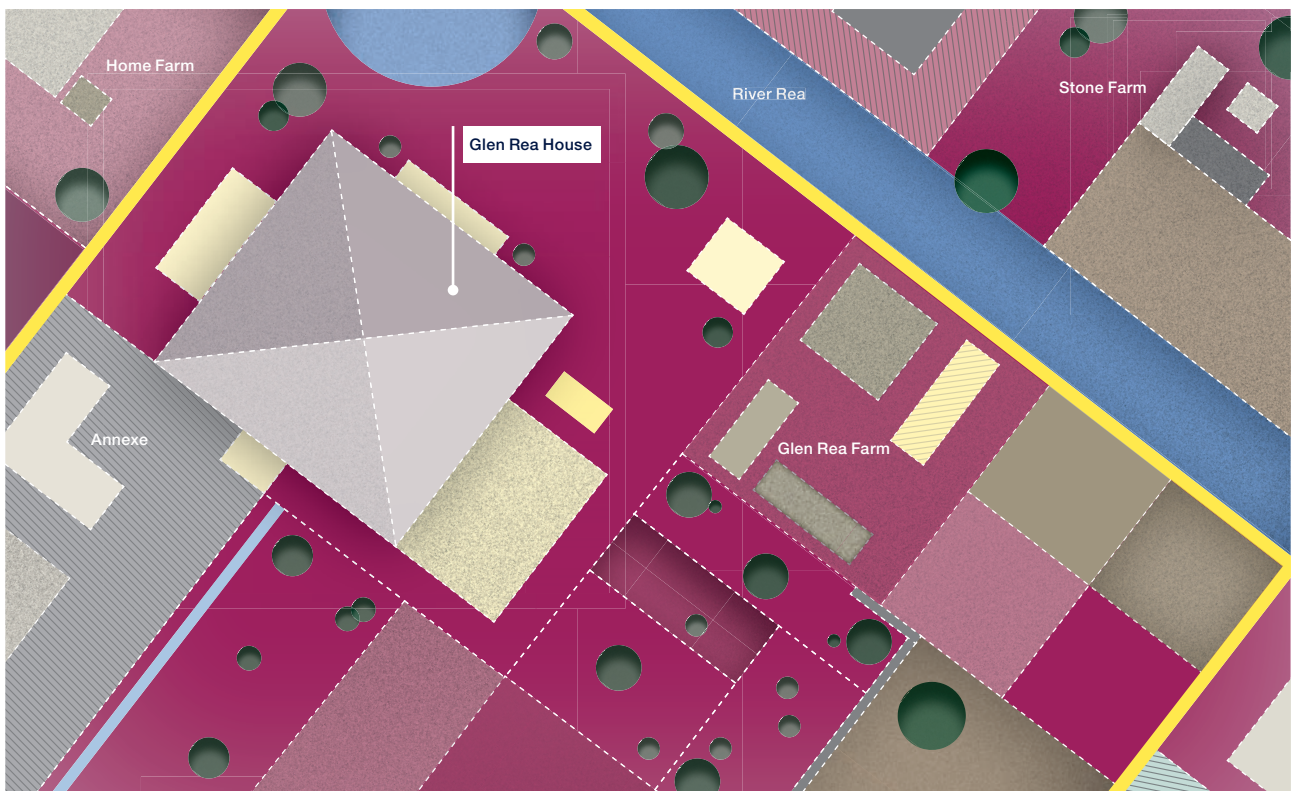


Spotlight | 2017

Scottish Estate Benchmarking Survey



Summary We are seeing a greater focus on alternative income streams. This is driven by economic pressure and the need to spread risk in light of uncertainties surrounding agricultural support and new trade regimes

Agricultural and residential sectors remain the bedrock of rural estates delivering, on average, 70% of gross income.

Owners have identified the relative security of their residential portfolios and invested to maximise return. They have greatly improved their performance in the last 10 years.

Commercial and leisure incomes have become increasingly significant over the past seven years. We are now recording a similar pattern for renewable energy enterprises.

Trading enterprises are more prevalent on Scottish estates, where the five-year average of trading income represented 18% of gross income, compared with 8% on English estates.

Estates are converting or disposing of poorly performing assets. They are investing in new income streams, such as developing commercial workspace and diversifying into alternative enterprises.

This report provides owners, managers and trustees with a clear focus on each sector's performance, allowing them to make clear decisions and investment appraisals. In terms of due diligence, it enables participants to demonstrate best practice across the managed assets. For more information, or to be part of the next survey, please contact a team member on page 8

Keeping pace with change

Scottish estates are proving robust as owners and managers adapt to the changing face of the rural sector by appraising tenancies and diversifying sources of income

“ In an environment of geopolitical, security and trade concerns, rural businesses have performed incredibly well, as owners and managers continue to restructure and diversify.

Land Reform has clearly acted as a catalyst to change, affording opportunities to proactive farmers, and enhancing the quantity and quality of the rural housing stock. Following investment in new enterprises, these businesses have created new, sustainable jobs on estates and within local communities.

Agriculture and residential remain the bedrock of rural estates, providing 70% of turnover. However, other sources of income are growing fast and a diverse income will help businesses ride out economic uncertainty.

The agricultural sector has gone through significant restructuring. However, during this period, estates have continued to grow their turnover. Outdated farm tenancies have been converted to larger, viable in-hand and let units; indeed, a positive outcome of the Land Reform Act has been an increased acceptance by landowners of the modern limited duration tenancy. It is not an overnight process and businesses will need to secure the right balance of in-hand and let entities.

Residential portfolios have greatly improved their performance over the last 10 years. Owners

have identified the relative security of this income and invested to enhance the rural housing stock and maximise return. This is a continuing trend and, once again, legislative change, namely the Repairing Standard, has acted as a catalyst.

Recently, farmhouses and cottages renounced from traditional tenancies have been a welcome addition to residential portfolios. However, these have required significant expenditure to bring them up to standard.

Increased diversification has been driven by a desire to add new income streams and by opportunities created by the reversion of old farm tenancies bringing land, cottages, farmhouses and farm buildings, back in-hand. It is exciting to see so many diversifications and we expect to see the diversity of income increasing, especially through renewable energy.

Rural business has adapted well to legislative change, but we are now set for a complex and protracted change in trade rules and subsidy regime. Estates have reduced their exposure to protect core incomes and capture new streams and the sector is increasingly well placed to optimise new opportunities. ”

Kenneth Munn Estate Management (Scotland)
0131 247 3728 kmunn@savills.com

Business benchmark

The mix of assets on a rural estate is 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 assets 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 Are you benchmarking your performance and constantly trying to identify ways to improve results?
- 6 Is the estate right for you and your family, and what are your plans for inheritance?
- 7 Have you had an independent, impartial review of the overall estate strategy?



Markets



Costs



Innovation



Diversification



Risk

Standing still is not an option

While proactive management of property assets will help reduce risk, rural estates need to evolve. Developing new income streams is essential

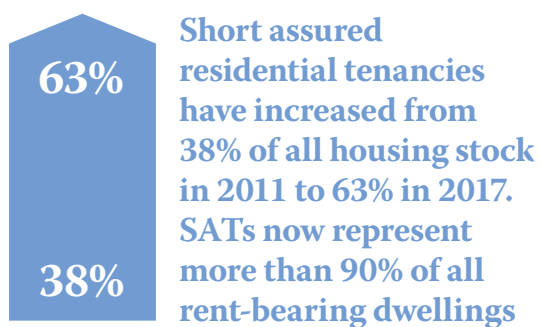
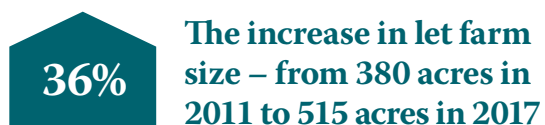
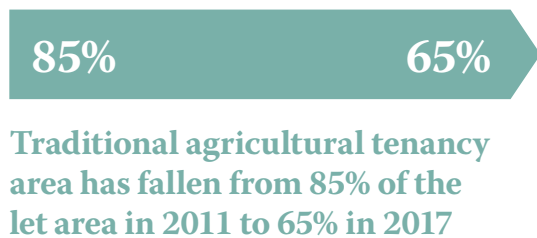
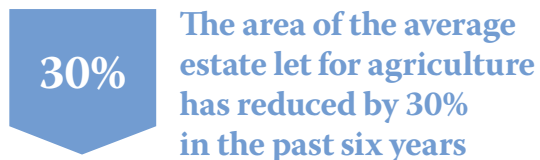
Our research shows that Scottish estates are changing, both in terms of structure and occupancy. The change is not restricted to Scotland, with a similar pattern of change also taking place south of the border.

Figures indicate proactive management of the structure and scale of the property portfolios which has led to increased income and reduced risk. This has been achieved by disposing of assets that are poor-performing (tertiary land and residential properties) and generating

new income streams, such as developing commercial workspace and diversifying into alternative enterprises.

There have been significant changes to occupancy in the agricultural and residential portfolios – a shift from traditional and regulated occupancy to in-hand/contracting and to tenancies at market rents. The result of negotiated renunciations has led to traditional tenancies coming back in-hand allowing a reallocation of these assets often to the next generation of tenants or contract farmers on larger, more viable units.

Estate evolution Changes in occupancy of agricultural and residential portfolios



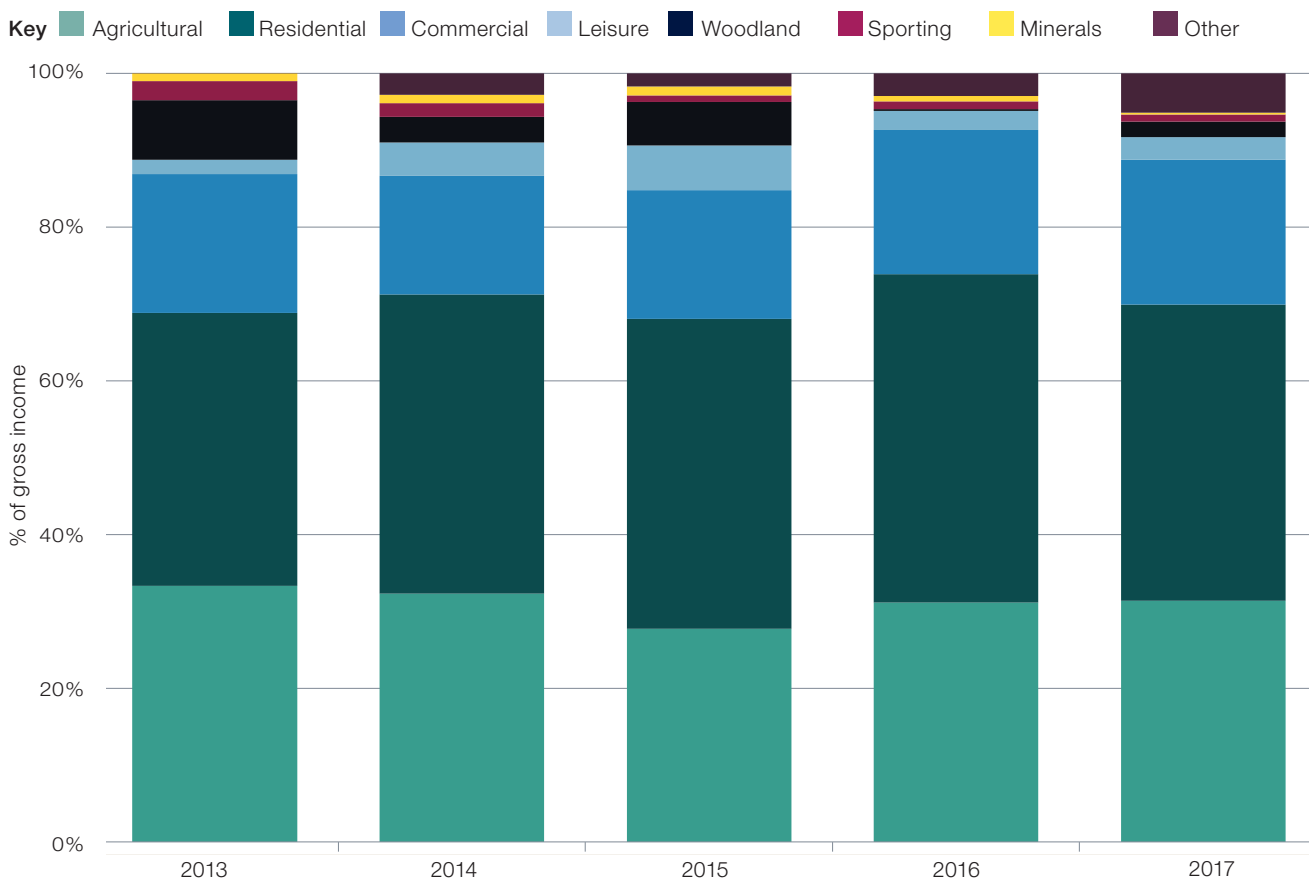
Value through diversity

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 results of Savills 2017 *Estate Benchmarking Survey* show that average gross income across Scotland rose by 11% to £148 per acre. This is an annualised increase of 4.7% per year (3.2% in real terms) over the past three years. Cost control over the past five years has increased net incomes by around 14% per annum.

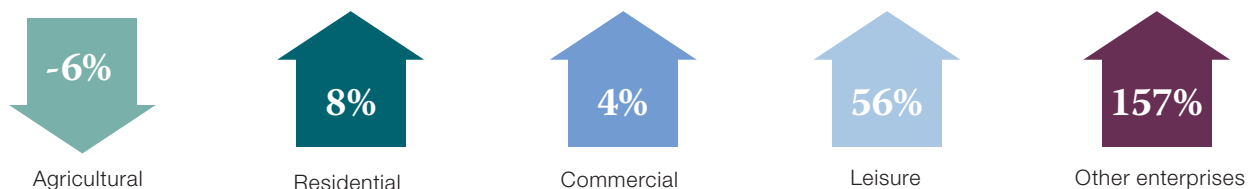
Core income (70%) is still derived from agricultural and residential assets (see below). Commercial assets contribute almost 20% of gross income, with the remaining amount derived from other sources, such as woodland, minerals, leisure, and other enterprises. Since 2013, agricultural has seen a -6% change in contribution to the estate's gross income (see bottom).

Percentage of gross income Agricultural and residential assets still make up core income



Source Savills Research

Diverse growth The relative change in income contribution by sector between 2013 and 2017



Source Savills Research

Agricultural income

Our research shows that, across the UK, agriculture makes a wide range of contributions to estate income. For Scotland, it's 31% compared with 20% in the South East of England and 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 and land quality. The threats of Brexit are mitigated where the contribution of non-agricultural income streams is high.

The table (right) shows average agricultural passing rents across Scotland. Many of these increases are associated with holdings which have been under-rented. More details on rents can be found in our *Agricultural Rents Survey* and *English Estate Benchmarking Survey* at: www.savills.co.uk/research/uk/rural-research.aspx

Average agricultural rents 2017 Many of the increases are associated with holdings that have been under-rented

	Traditional tenancy (TT)			Limited duration tenancy (LDT)		
	2017 £/acre	Annualised % (3 year)	Annualised % (5 year)	2017 £/acre	Annualised % (3 year)	Annualised % (5 year)
Nominal	£62	5.3%	4.4%	£95	3.2%	8.2%
Real		3.6%	1.7%		1.5%	5.8%

Source Savills Research

Residential income

Residential property provides a core income source for Scottish estates (see chart left). On average, it contributed £57 per acre (39% of estates' gross income).

Average annual rental income from SATs on all estates increased by 3.3% during 2017 to just over £6,900 per dwelling. This bucks the trend of the past three years where annualised growth has been slightly negative – the result of resumptions of traditional farm tenancies with poorer-quality housing being added to the let residential portfolio. Consequently, low rental figures for these properties diluted the wider average rent. The results demonstrate that, following capital improvement programmes, rents are being increased.

Average annual residential rents across Scotland range from £6,000 for a one- to two-bedroom house to £11,000 for a detached five- to six-bedroom property.

Average residential rents 2017 Following capital improvement programmes, rents are being increased

	Short assured tenancy (SAT)			Regulated rents		
	2017 £/dwelling	Annualised % (3 year)	Annualised % (5 year)	2017 £/dwelling	Annualised % (3 year)	Annualised % (5 year)
Nominal	£6,900	-0.6%	2.7%	£5,081	1.2%	5.7%
Real		-2.3%	0.4%		-0.5%	3.3%

Source Savills Research

Costs

In 2017, the average total expenditure was 48.7% of gross income across Scottish estates (see right), significantly lower than the previous three years, suggesting proactive cost management relative to increasing incomes.

However, there were some notable increases. Property repair costs were the highest for three years (£34 per acre across the average estate). This reflects expenditure on resumed farm properties.

Non-domestic rates

Income from rateable enterprises, such as commercial and leisure, has increased significantly over the last decade. Following the rating revaluation, this will result in increased rates bills for estates. We are also concerned about the impact of sporting rates. This could have a big effect on an estate's rates, but also complementary holiday accommodation, employment of gamekeepers, and the viability of the whole sporting enterprise.

Costs as percentage of gross income

Property repair	22.6%
Management	14.4%
Other professional	2.0%
Insurance	6.2%
Legal	1.5%
Accountancy	1.3%
Rates and other costs	0.6%
Total expenditure	48.7%

Source Savills Research

The surplus across the let agricultural portfolio after costs from 2014 to 2017 has been volatile (28% to 40%) compared with let SAT properties (32% to 37%)

New opportunities for 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, 70% of the gross income. However, commercial, leisure and renewable energy enterprises all make a significant contribution.

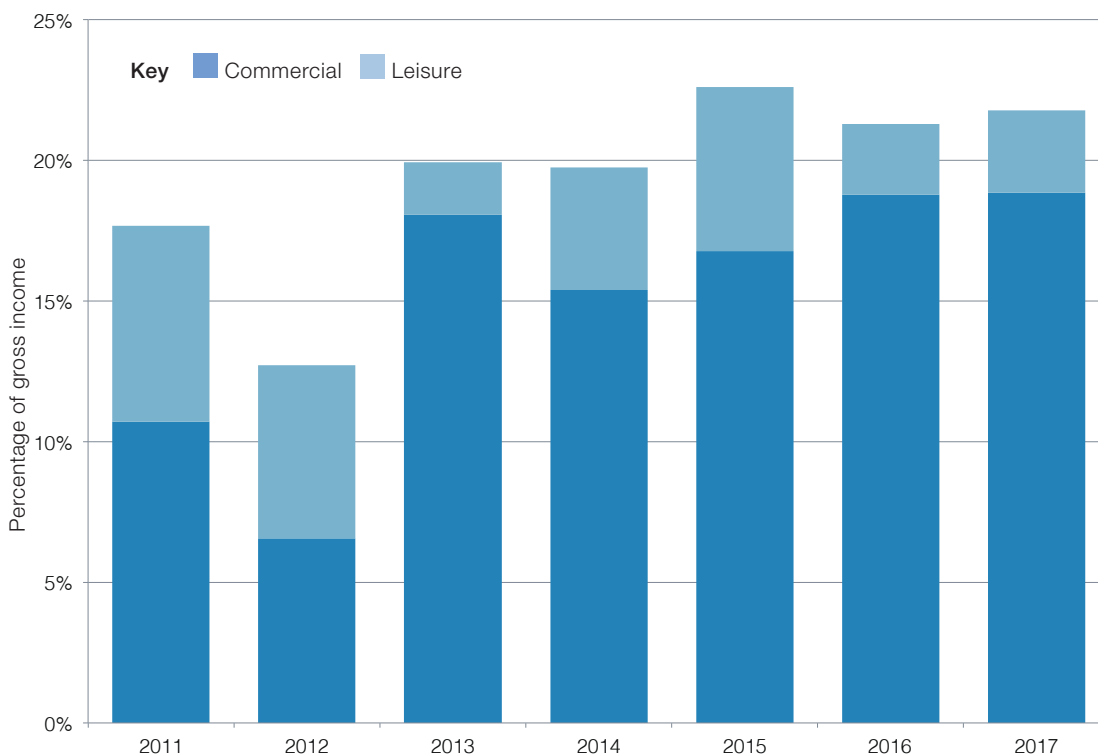
Income in these sectors, especially for trading rather than let enterprises, is more correlated to the general rather than the agricultural economy and requires different skills, input and buy-in from the owner to make a success of them.

We are witnessing an increased focus on alternative income streams by Scottish estates, although this has been an underlying trend during the past decade.

Economic pressure and the need to spread risk, especially with the uncertainties surrounding agricultural support, outcomes from Land Reform, and trade concerns around Brexit, are driving this.

Trading enterprises are more prevalent on Scottish estates, where the five-year average of trading income represented 18% of gross income compared with 8% on English estates

Commercial and leisure Income is closely correlated to the general economy



Source Savills Research

As commercial and leisure incomes have become more significant over the past seven years, we are now recording a similar pattern for renewable energy. Across Scottish estates, this now represents almost 7% of gross income, or almost £10 per acre (2017). However, for estates actively generating renewable energy, this increases to nearly £15 per acre.

The average estate has an income of £11,400 per mast derived from telecoms. Unfortunately, this income is now under threat from the new Digital Economy Act and owners need to take action to protect this income.

Woodland, minerals and other income sources can also provide opportunities.

Our estate benchmarking survey shows that trading enterprises are more prevalent on Scottish estates, where the five-year average of trading income represented 18% of gross income compared with 8% on English estates. Much of this increased trading

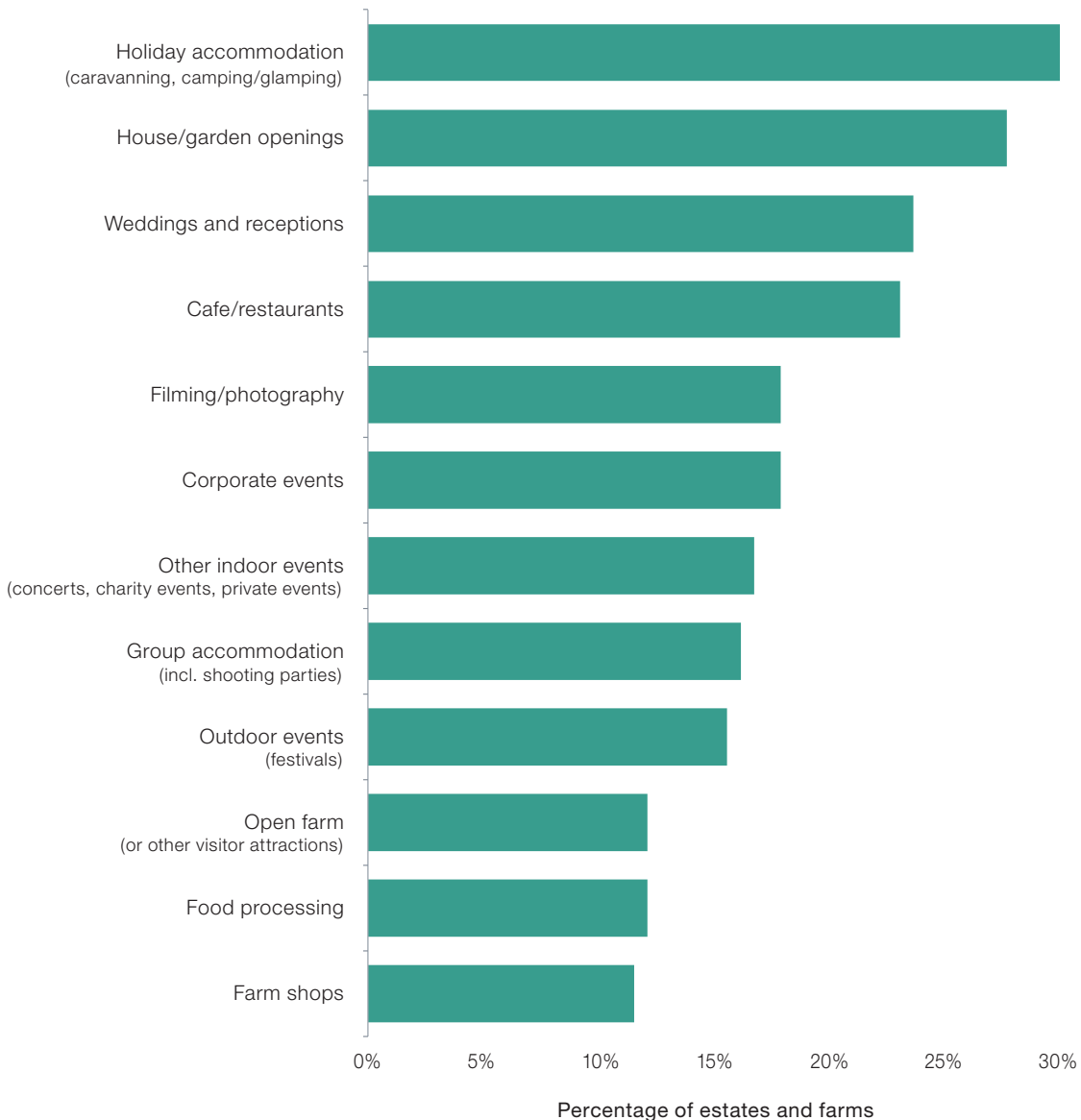
income is derived from the shift to in-hand contract farming and to new alternative enterprises.

In addition, our research shows that around one-third of farms and estates have holiday accommodation, including caravans, camping and glamping. A similar proportion open their house or garden, 25% host weddings and receptions, and more than 10% operate a farm shop. Other popular choices include cafes and restaurants, filming and photography, and corporate events.

The majority (70%) currently have trading incomes below £100,000. Of these, 16% are in 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. Separate results are published for English estates.

Estate structure

The average estate structure for those estates participating in the survey is:

- 3,800 acres
- 44 residential properties with an average density of 8 houses per 1,000 acres
- 16,300 sq ft of commercial workspace with an average density of 2,400 sq ft per 1,000 acres.

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.

Abbreviations

- LDT** Limited Duration Tenancy
- SAT** Short Assured Tenancy
- SLDT** Short Limited Duration Tenancy

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 a manual to help download data for the Savills Estate Benchmarking Survey.

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

Research



Ian Bailey

Rural Research
020 7299 3099
ibailey@savills.com



Julie Baxter

Rural Research
07807 999 896
jbaxter@savills.com

Estate Management



Kenneth Munn

Estate Management
(Scotland)
0131 247 3728
kmunn@savills.com



Mark Fogden

Estate Management
(Scotland)
01387 274 395
mfogden@savills.com



Jonathan Henson

Head of Rural
(Scotland)
01738 477 511
jhenson@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.
