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CONFERENCE PAPER[1]

WILL THE DIVERSITY OF RURAL ESTATES IN ENGLAND ENSURE FUTURE FINANCIAL SUCCESS?[2]

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Primary research of over 200 rural estates in England and Scotland covering more than one million acres offers an in-depth insight into the resourcefulness of land managers. Rural estates are in themselves diverse property portfolios offering opportunities. However, there are constraints, such as location, and threats which include regulation.

The information derived from our ongoing research enables estates to benchmark themselves against the industry average. However, the benchmark report also includes sufficient physical information to enable managers to identify those aspects of the business which can be managed and those beyond the control of the business.

This paper reviews the historic data and explores the future trends for the key income streams, notably agricultural, residential, commercial and leisure in England. Ultimately an understanding of economic dynamics of the 'average estate' will enable areas of best practice to be identified.

Key Words Forecasts, gross income, rural estates, benchmark, income streams, land managers, diversity, financial success

1. Introduction

Warren Buffett said that it is only when the financial tide goes out that you discover who has been swimming naked. In contrast to banks and other highly leveraged businesses that have been savaged over the past two years, the recession has revealed most rural estates to have been well-clothed. The long-term thinking which lies behind the running of estates has served their owners well in straitened times. Will this continue?

The research for this paper is drawn from the Savills Rural Estate Benchmarking Survey. We believe our Estate Benchmarking Survey, which has around 200 participating estates, covering more than one million acres of land across Great Britain, is the largest and most comprehensive in the industry. It reports on the financial (income, expenditure and return on capital) and physical aspects of the estate business and covers the main business streams typical to rural estates – agriculture, residential and commercial/ leisure, analysing the let sectors in detail. The survey reports separately for England and Scotland.

1.This paper was originally presented at the ROOTS Conference 2010 – The Annual RICS Rural Research Conference – 13-14th April 2010, at Plumpton College, Sussex. It is reprinted by kind permission of the Royal Institution of Chartered Surveyors and the author.

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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 has also played a part.

The main objectives of estate owners, as recorded by the survey, are the long term retention of the core estate and income generation. These are closely followed by maximising the return on capital and then environmental stewardship. To this end this paper specifically looks at the sources of income generated on rural estates in England with the analysis concentrated on the three key sectors – agriculture, residential and commercial/leisure and for the years 2002 to 2009. Reference will be made to estate expenditure, net incomes and investment performance as these are essential elements of benchmarking.

Methodolgy

The survey is well established having commenced in 1996 and collects data each year analysing performance of the property assets of participating rural estates. Each year the survey analyses the results of participating estates with financial year ends in the 12 months to 5th April. The survey is essentially a management tool and participants are encouraged to use management accounts.

We believe that timely results are paramount to ensure businesses have the information required to respond to changing market conditions. To this end the main data submission period is March to May with reports distributed in the second half of July, meaning they are available for use at board or trustee meetings to review the year's performance.

All information is ring fenced within our research department, which has an established track record of preserving the confidentiality of participant data.

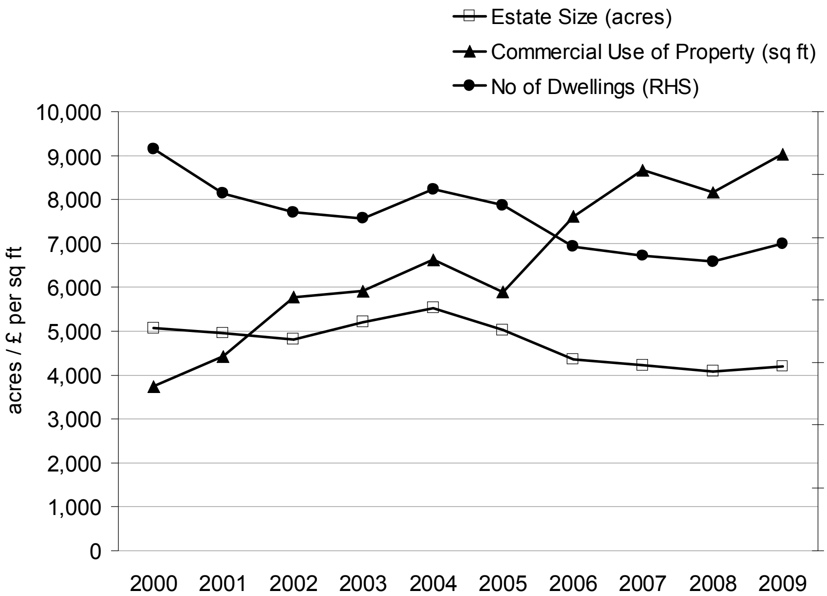
Since 2000 the average annual area participating in the survey across England has been over 650,000 acres and has a robust mix of private (70%) versus institutionally (30%) owned estates. Data is collected from over 7,000 residential properties and just under a million square feet of commercial workspace per year.

2. Estate structure

The average estate structure is illustrated Graph 1. The overall area of the average estate was relatively static at around 5,000 acres until 2005 since when there was some consolidation to around 4,200 acres. The total number of houses has also seen some contraction since 2000 although this has slowed since 2002 and in 2009 averaged around 50 houses per estate. In contrast, the average area of commercial workspace has significantly increased since 2000; reaching about 9,000 sq ft in 2009 although the rate of this increase has declined during the past few years.

The survey has recorded a shift in movement from the more regulated tenancy types to those which are more market orientated. In the agricultural sector the area let as Farm Business Tenancies (FBTs) has increased from around 20% of the let agricultural area to over 35% and similarly the

Graph 1. Average estate structure



Source: Savills Research

proportion of AST tenancies in the residential sector has increased from under 40% of all houses to around 48%.

3. 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 analysis of funds; especially for estates where there are also alternative investments.

The survey shows that the performance of all assets on rural estates came under pressure during 2009 recording a total return for 'All Let Property' of just 2.4% compared with 19% in 2008. However, when compared to other

Table 1. Total returns of comparable asset

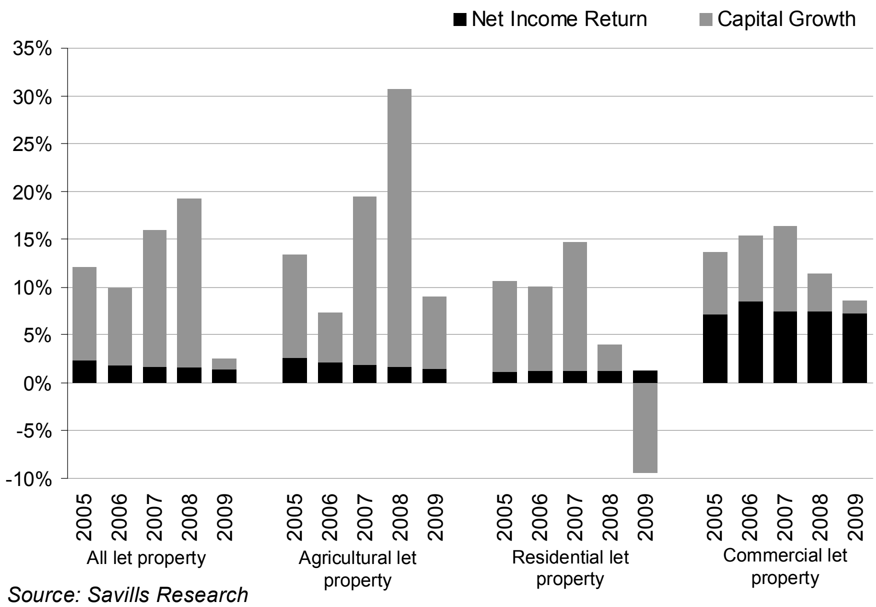
12 months to:	Dec 2008	Dec 2009
All Let Residential	-13%	-7.3%
Urban Commercial	-22%	2.2%
Equities	-30%	30.0%
Gilts	15%	-0.3%
Forestry	7%	7% (est.)

Source: IPD & Savills Research

asset classes, especially mainstream residential and commercial investments, and also equities the performance of rural estates was reasonable and at least remained in positive territory.
Graph 2 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, in contrast to agriculture, the performance was supported by income rather than capital growth.

Graph 2. Mixed assets on rural estates support performance



Source: Savills Research

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

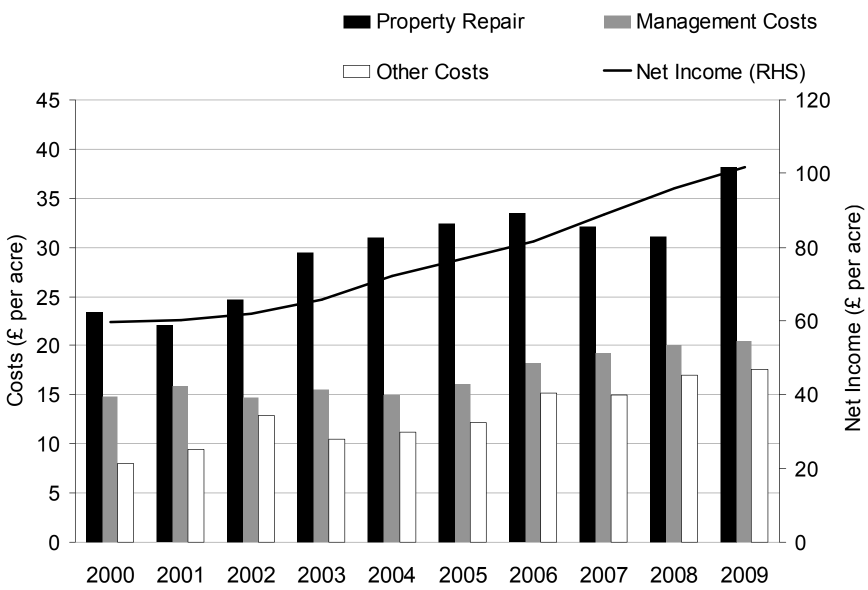
Diverse property types on rural estates and the resilience of farmland values to recessionary pressure have maintained investment performance above levels recorded in mainstream sectors. We expect the investment performance to be similar in the next 12 months as lower annual growth in farmland values is balanced by some improvement in residential values. Therefore the performance of rural estates will again be comparable to alternative assets as shown in Table 1.

4. Net Income

Our survey results show that the average net income (before depreciation, finance, drawings and tax) increased by 6% during 2009 to £102 per acre continuing the robust upward trend of the past decade. Net incomes across the regions show a similar pattern to gross incomes.

The rise in net income was due to an 8.3% increase in gross income but was tempered by a significant increase in property repair costs (see Graph 3).

Graph 3. Net income and expenditure



This resulted in an 11.6% increase in total expenditure on all estates during 2009 to over £76 per acre. This increase was significantly above the annualised increase of 4.5% recorded over the past three years.

Effective cost management and attention to detail to maintain income streams, as discussed later, will help ensure net income continues the upwards trend.

5. Expenditure

Property repairs increased significantly (22.5%) in 2009 to over £38 per acre. This was anticipated 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 in 2009.

Repairs to agricultural property increased by 65% in 2009 to £7.65 per acre compared with repairs to residential property, which increased 24% to £23.06 per acre. The agricultural property repairs were spread across all farm types but the predominantly dairy estates recorded the highest sums spent. These amounted to almost £24 per acre and were more than double those spent in 2008. In addition, estates with dairy farms spent another £20 per acre on capital improvements in 2009, up 26% on that spent in 2008. Pressure to upgrade slurry storage to comply with Nitrate Vulnerable Zones (NVZs) will no doubt have been a factor. The proportion of estates in the survey which are predominantly dairy has remained relatively static.

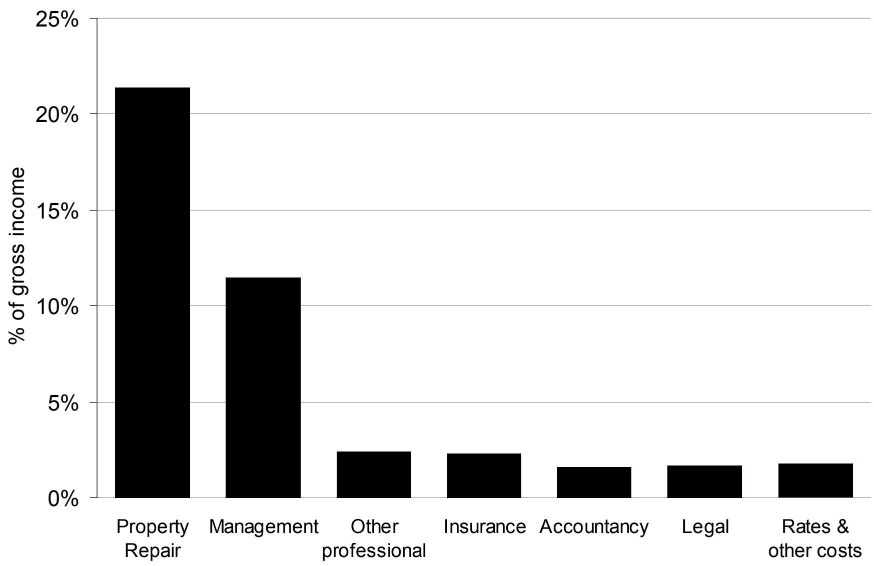
It is likely that the 2010 results will show repair costs falling back to around £32 per acre as recorded in the previous few years, which will slow the rate of increase of the rolling five year average. The five year rolling average takes out the annual volatility and records an annualised increase since 2000 of 4.9%.

Total management costs (cost of estate office plus management fees) continued to increase but were capped below inflation, rising 1.8% in 2009 on the average estate to £20.44 per acre. 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 in 2009.

Graph 4 shows the key areas of estate expenditure and their proportion of gross income. Although expenditure, other than repairs and management, may be relatively small individually, collectively they add up to another 10% of

Graph 4. Expenditure as a proportion of gross income in 2009



Source: Savills Research

gross income.

6. Source of income

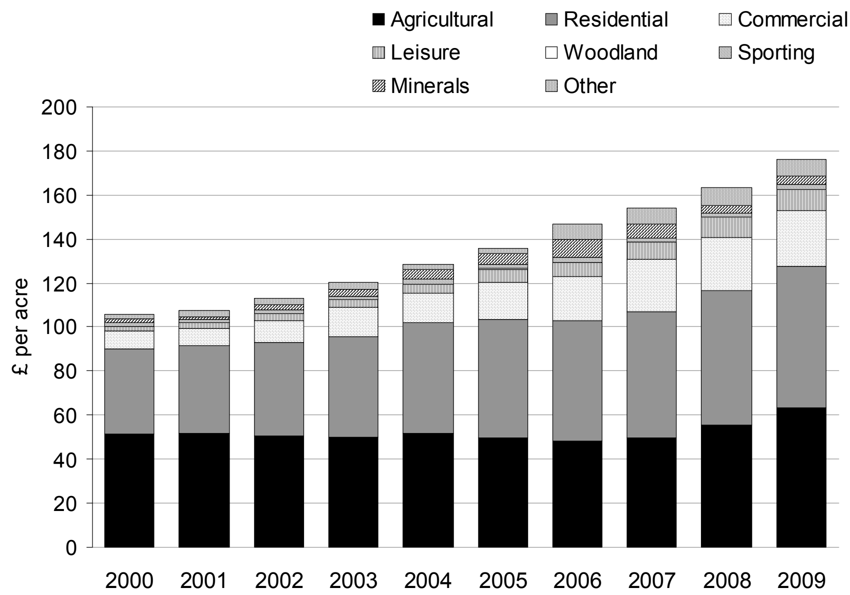
Our research shows that the financial performance of rural estates has remained buoyant and relatively unscathed by the recession (see Graph 5).

Average gross income on 'All Estates' increased by 8.3% in 2009 to £178 per acre. 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 slipped to under 32% in 2007. The contribution from residential assets slipped slightly to 36% with the proportion of income generated from commercial assets slipping below 15% for the first time in the past two years (since 2007).

Our analysis clearly illustrates the diversity of rural estates. This diversity largely stems from the various property assets which constitute a 'rural estate' and which offer the opportunity to extend income streams beyond those in agriculture. However, it should be noted that each individual estate is unique and the key is to identify all the resources available to the estate and then to exploit each one to generate income within the constraints of location, capital and management skills.

Graph 5. Source of income

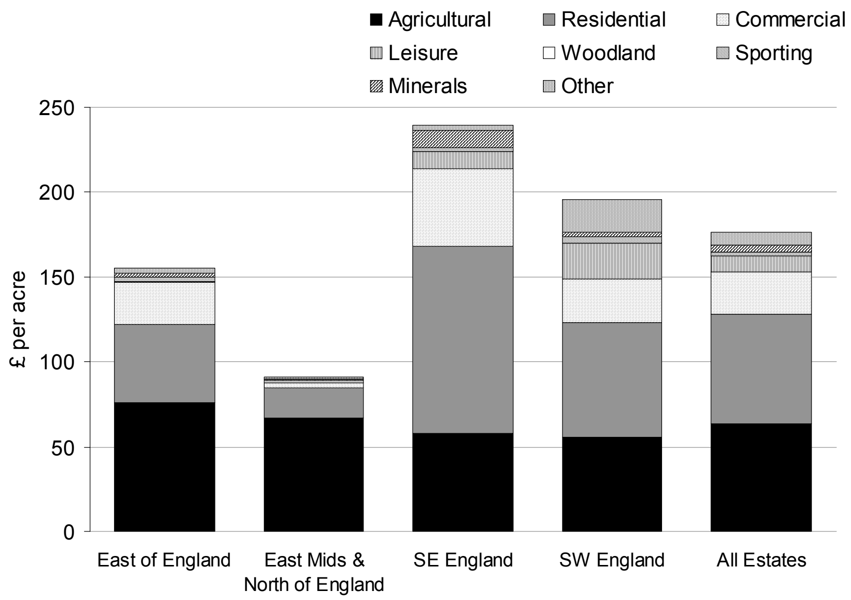


Source: Savills Research

Location is often a factor which boosts the potential of some income streams but limits others. Our research shows, as illustrated in Graph 6, 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, a third higher than that recorded for 'All estates'. Greater levels of rental income derived from residential and commercial lettings were the key differences. In the South West of England 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.

Graph 5. Source of income by region



Source: Savills Research

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.

Although our survey has data going back to 1996 this paper will concentrate on the data collected since 2000 when commercial and leisure income data was reported separately as illustrated in Graph 5. A correlation analysis of this data (see Table 2) shows that there are three key areas of positive correlation.

1. Those very positively correlated i.e. 0.98 and above. Here the analysis shows an excellent correlation between residential and commercial income streams suggesting that the same skills and best practice can be rolled between these two assets – both require attention to detail with respect to repairs and capital expenditure, planning, marketing and interpersonal skills to maximise occupancy and rental levels. This suggests that as we move forward these two income streams will remain closely linked especially from a management perspective. Although tenant demand may differ between them.
2. Those with a strong correlation i.e. between 0.85 and 0.92. Here we see a strong relationship between residential, commercial and leisure

income streams with 'other' income suggesting, as in 1 above, that the entrepreneurial flair that drives more income from built property assets will also be looking for opportunities from all resources.

3. Those with a reasonable correlation i.e. between 0.60 and 0.66. Sporting enterprises often tend to be linked with the agricultural activities on the estates and a reasonable correlation would be expected. However, the tendency for activity in the mineral sector to be somewhat correlated to residential, commercial and leisure activities suggests that this may be linked to the core skills of the estate manager. Redundant quarries often open up new leisure opportunities, especially those that are water based.

Table 2. Income stream correlation (2000 to 2009)

	Agricultural	Residential	Commercial	Leisure	Woodland	Sporting	Minerals	Other
Agricultural	1							
Residential	0.52	1						
Commercial	0.45	0.98	1					
Leisure	0.53	0.98	0.99	1				
Woodland	-0.42	-0.15	-0.16	-0.17	1			
Sporting	0.65	0.44	0.32	0.38	-0.28	1		
Minerals	-0.24	0.64	0.66	0.60	0.21	0.20	1	
Other	0.46	0.85	0.90	0.92	-0.29	0.33	0.56	1

6.1 Agricultural Income

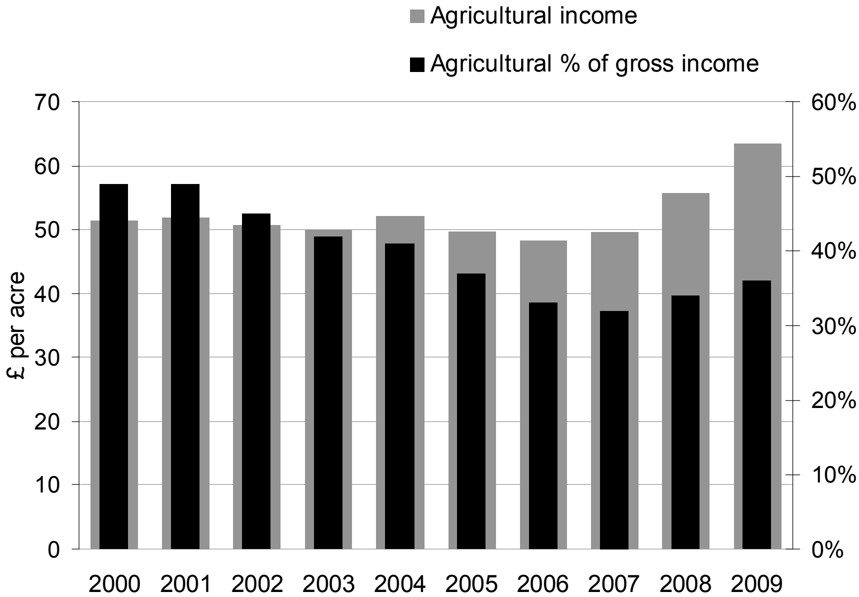
The survey shows that Agricultural Holding Act Tenancies (AHA) increased by 16% on all estates during 2009 to £75 per acre (£185 per ha) following an increase of 11% the previous year. The majority of this uplift was in the arable sector where average AHA rents increased 20% to £83 per acre (£205 per 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 from farming in-hand rather than letting out the land. These must however be balanced with the risk and the additional capital requirement. In-hand farming does give the estate more control and this might make new opportunities easier to implement.

Farmland is the core asset of the rural estate and provides a fundamental base to gross income. Our research shows that this sector has contributed around £50 per acre to gross income since 2000 although the upturn in agriculture pushed this up to £55 and £63 per acre in 2008 and 2009 respectively (see Graph 7). However, as also illustrated in Graph 7, agriculture now only contributes around 36% of gross income compared with almost 50% at the beginning of the decade.

Graph 7. Agriculture's contribution



Source: Savills Research

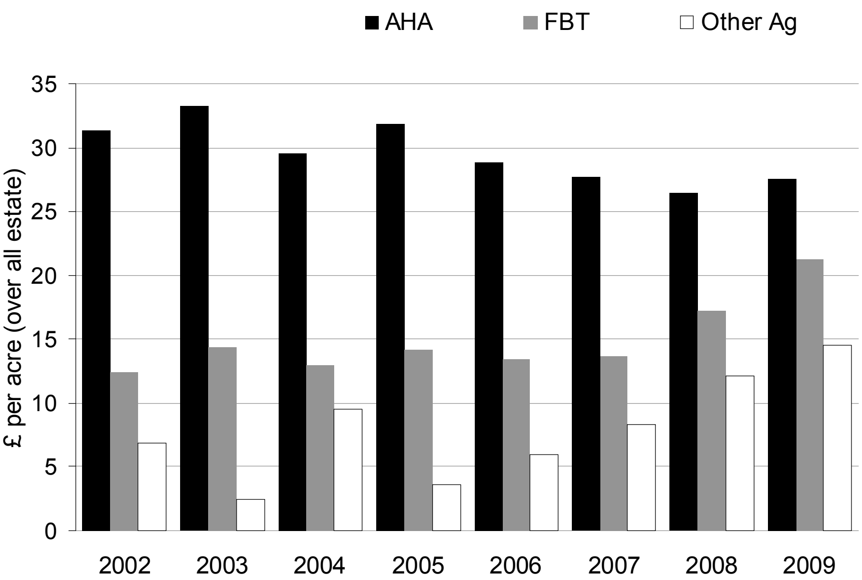
A very significant part of the agricultural income is derived from let farmland which principally includes AHA and FBT tenancies, and in-hand farming enterprises. Graph 8 shows that AHA tenancies are the main stay of the agricultural portfolio although this is changing with a shift to FBT tenancies and a more flexible approach to managing this part of the estate.

Income from AHA tenancies has fallen from over 60% of all agricultural income in 2002 to 43% in 2009. The slight increase in 2009 was due to a significant (16%) increase in AHA rents. In contrast, FBT income, which represented only a quarter of the agricultural income now represents over a third. The pattern has been similar for the FBT area as a proportion of the let agricultural area – moving from 21% in 2002 to 35% in 2009. Defra's June Census data for England confirms this trend with the total FBT area of England representing 33% of the total area rented in 2009 - up from 24% in 2002. The reversion of AHA tenancies is key to further enhancing the income potential of the agricultural sector of an estate.

6.2 Residential Income

Residential income continued to increase at a steady annualised rate of 4.1% per year during the three years to 2009. 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.

Graph 8. Contribution by tenancy type



Source: Savills Research

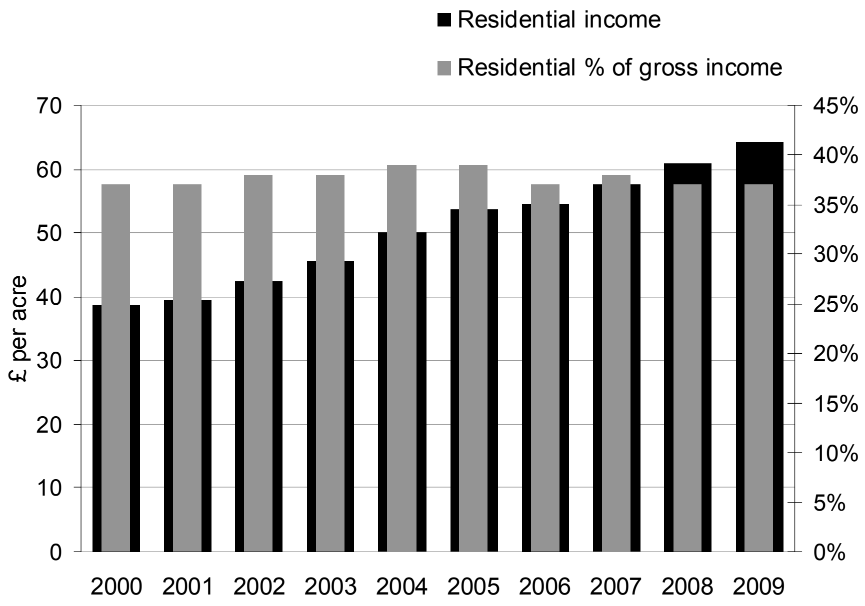
ASTs represented 73.6% of all housing stock in 2009, up from 72.5% in 2008, maintaining the steady upward trend. There was evidence to suggest some pressure on AST rents, with voids increasing from 4.7% in 2008 to 5.2% in 2009. We expect this pressure to continue into 2010 as the current economic climate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

Our survey recorded average AST rents of over £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.

Income from the estate's residential assets has steadily increased to just under £65 per acre but, as total gross income has increased, the proportion this represents has remained steady at around 38% - see Graph 9. Residential assets are an important part of the estate portfolio with the average estate having around 50 houses. However, it is an area which must not be ignored. In 2009 only two-thirds of houses produced any direct rental income and a quarter of these were let at sub market rents. Almost 30% of all houses are tied up in farm tenancies or are used for estate employees and the remaining 8% produce no income at all.

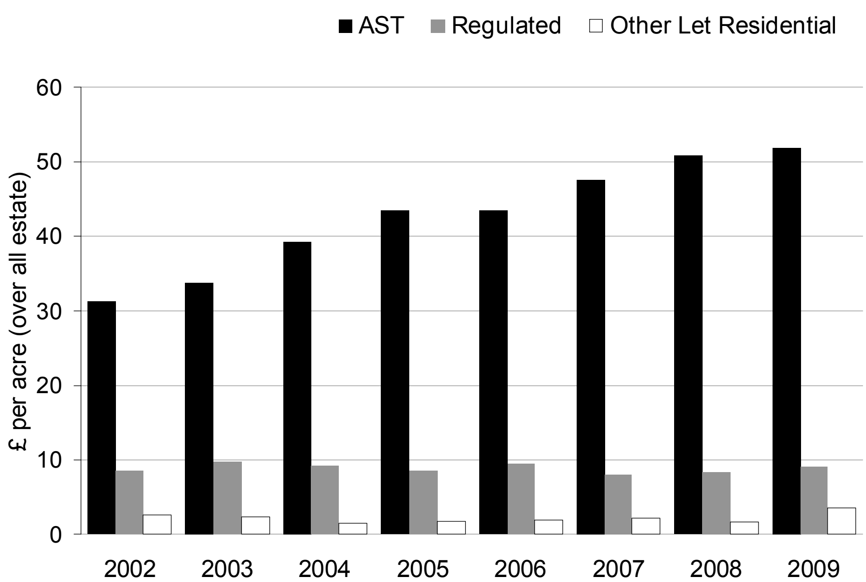
Estates have been proactive in increasing AST rental income as illustrated in Graph 10. Income sourced from AST rents now represents over 80% of all residentially sourced income; an improvement from the 74% recorded in 2002. Regulated and other residential rental income has been relatively steady for the past decade.

Graph 9. Residential contribution



Source: Savills Research

Graph 10. Contribution by tenancy type

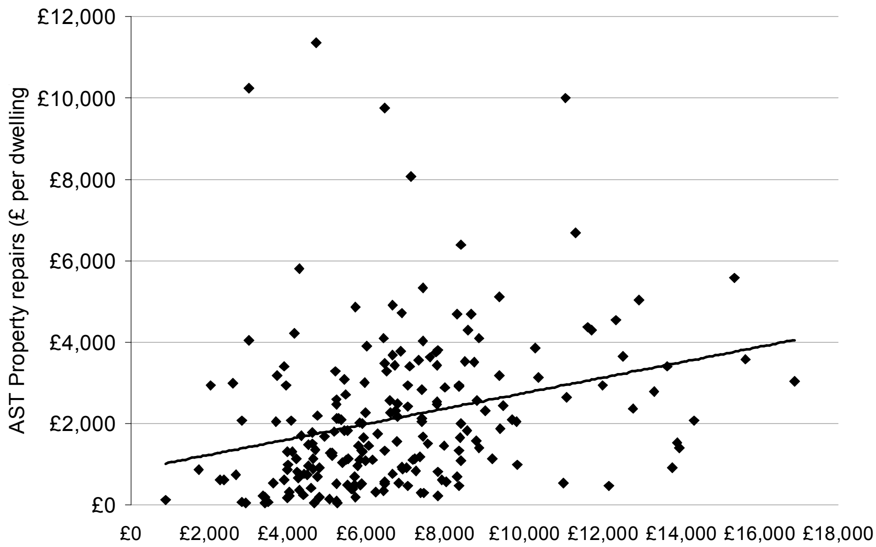


Source: Savills Research

6.2.1 Repairs

Our research (see Graph 11) shows that there is only a weak positive correlation 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. However, there is a cost to maintaining good order to ensure current rentals levels are sustained and to reduce voids. In addition, a well maintained property will hold its capital value and will be more saleable if a future need should arise.

Graph 11. AST repairs v AST income



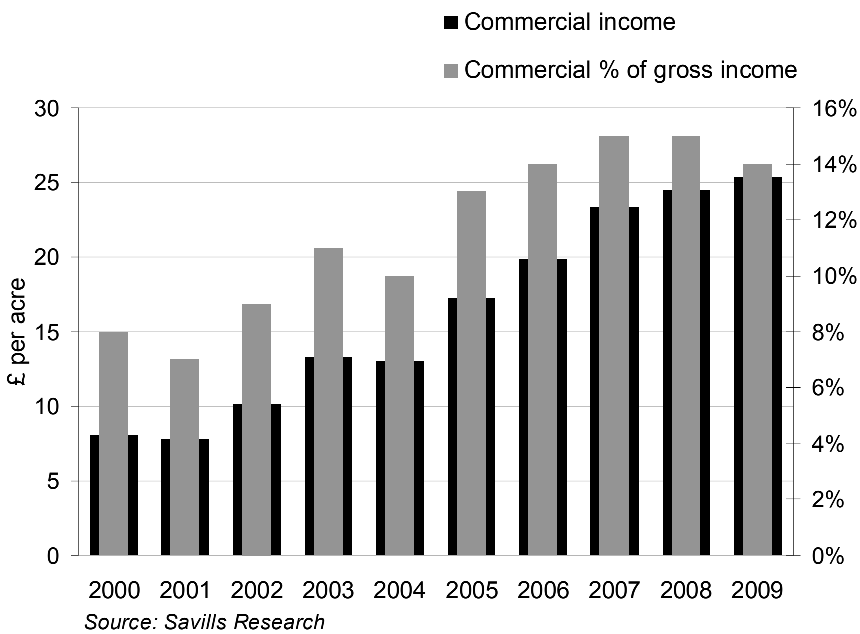
Source: Savills Research

6.3 Commercial Income

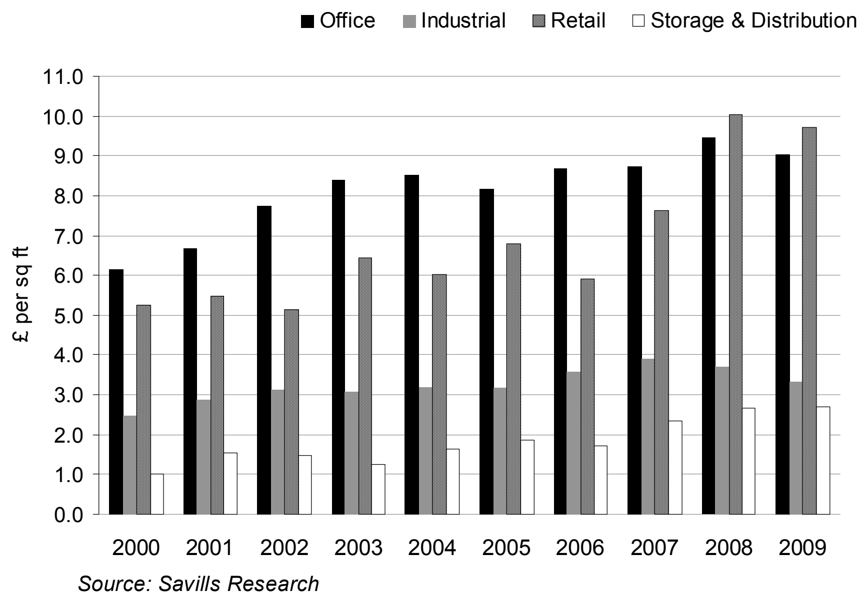
The income from commercial assets on rural estates has given their income earning capacity a real boost. In the early 2000s the income from commercial property represented less than 10% of gross income and contributed just £10 per acre to the estate as shown in Graph 12. Now, less than 10 years on, these assets represent around 15% of gross income (although the 2009 results showed that the recession had put some pressure on this sector) and contributed over £25 per acre – an increase of 150%.

Although income from commercial assets increased in 2009, the rate of growth 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

Graph 12. Commercial contribution



Graph 13. Commercial workspace income



had a deeper impact on these sectors in the past year.

Average office rents fell 4.5% in 2009 to £9.03 per sq ft. Softening of rental incomes was also evident 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 was retail units where average rents were highest in the South West of England. Location and quality will be key in the future to ensuring low levels of void periods.

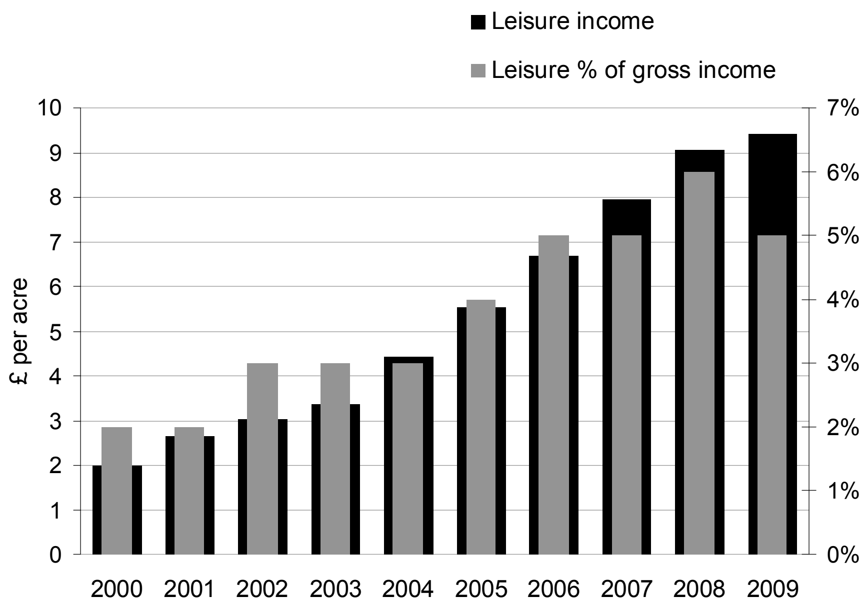
The income from telecom masts increased 8.4% in 2009 to £7,335 per mast. However, the recent trend of service providers amalgamating and consolidating aerials is likely to see pressure on this income source in the next 12 months.

6.4 Leisure Income

The opportunities offered by leisure related activities have been grasped by estate owners as illustrated in Graph 14. These would include everything from open farms, equestrian and golf enterprises to water sports and moorings.

In the early 2000s the income from leisure activities represented 2% of gross income and contributed just £2 per acre to the estate as shown in Graph 14 . Now, less than 10 years on, these assets represent around 5% of gross income (although the 2009 results showed that the recession had put some pressure on this sector) and contributed just under £10 per acre – a fourfold increase.

Graph 14. Leisure contribution



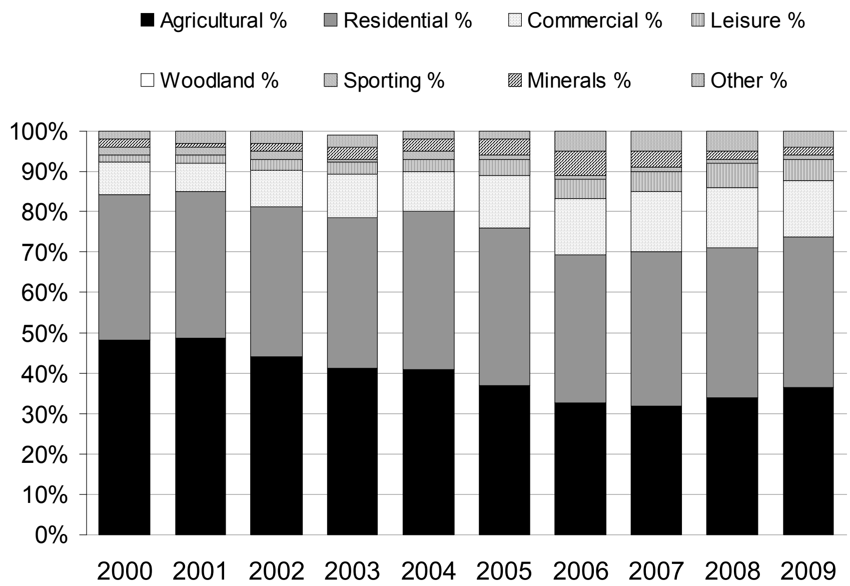
Source: Savills Research

6.5 All other sources of income

In addition to the income sources described above rural estates also generate income from:

1. Woodlands – surprisingly the average income generated by woodlands is negligible and often negative as more is spent than received. With the interest in carbon sequestration and sustainable building materials it would be expected that estate woods and forests would become a valuable income generating source in the future.
2. Sporting – the average income derived from sporting activities has been steady at around £2 per acre. It is unlikely that this position will change especially with increasing pressure on animal welfare which may impact on country sports.
3. Minerals – these opportunities are obviously not available to all and are dependant on the location of mineral deposits but where these can be exploited they are often very lucrative with the additional benefits of post extraction opportunities such as waste fill or leisure activities. As would be expected the contribution minerals makes to the average estate is relatively volatile and has varied between £3 and £8 per acre over the past 10 years.
4. Other income sources also include wayleaves, easements and miscellaneous items which are not easily allocated to the categories listed above. These have also been relatively volatile but with a general upwards trend and have represented up to 5% of gross income.

Graph 15. Income sources as % of gross income



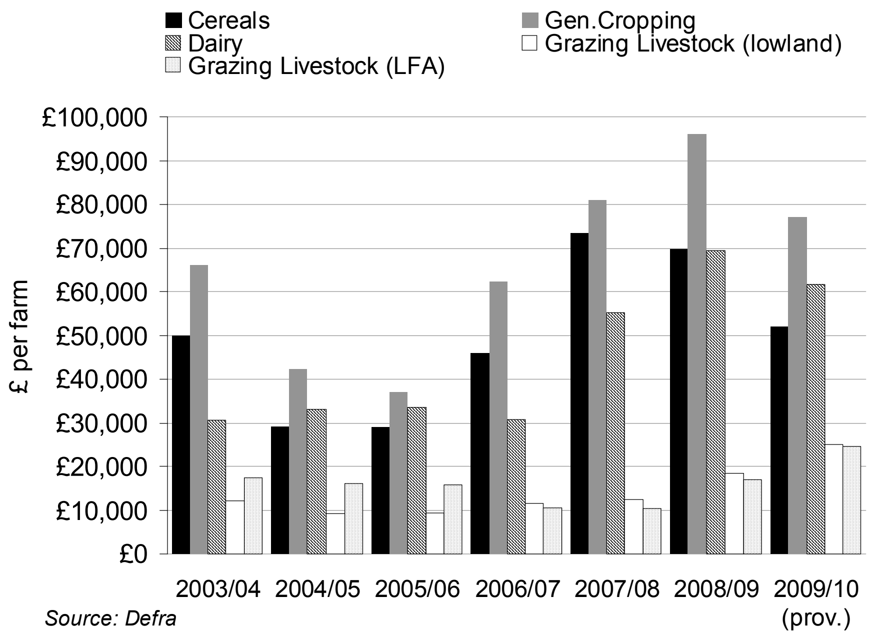
Source: Savills Research

In total these represent a relatively small and static proportion of gross income (see Graph 15) in context to the total gross income. Although it is likely that this pattern will continue these opportunities should be monitored and and exploited where possible.

7. Agricultural Comparisons

The diverse income streams on rural estates, as discussed above, have given these businesses a steadily increasing turnover. In contrast, land based businesses, which rely solely on the agricultural asset to produce an income have been more exposed to output and input price volatility. Graph 16 shows the variability in average incomes from year-to-year by farm type and clearly illustrates a significantly less stable and reliable income stream, which is more vulnerable than a business with several income streams.

Graph 16 – Average Farm Business Incomes (England)



Source: Defra

8. Forecasts

Our forecasts for each income stream, as discussed above are summarised below and illustrated in Graph 17. It is recognised that not all these income streams will be available to all estates but the summary of the key factors that may influence the general direction of these income streams will be applicable to many estates. There will be variation in income growth depending on the opportunities offered by such factors as location, resources (physical, people and capital) and local planning.

Our analysis suggests that the gross income of the average English estate will continue steadily upwards and at a pace ahead of inflation. A positive trend in income will feed into an improving performance from an investment perspective as capital values across all property sectors respond to healthier economic conditions.

8.1 Agriculture

Agricultural income will be principally driven by the outlook for commodity prices and farm profitability. In addition we envisage that the ongoing shift to reversion of AHA tenancies will continue adding value to the total income from this source over and above AHA rental increases. We expect that another increase, although not of the size recorded in 2009, in AHA rents is likely to be recorded in the 2010 survey as the results of 2009 rent reviews are included. Thereafter our forecasts include moderate growth in AHA and FBT rental levels of 2% and 5% respectively.

We expect in-hand farming incomes in the coming year to be under some pressure as output prices fall, but this fall will be tempered by lower input prices. As Graph 16 shows farm incomes in recent years have been higher than in the early 2000s and we expect, as food security becomes an increasingly important issue globally, that the general trend will be for strengthening commodity prices. This will underpin the growth in estate incomes from agriculture which will also be enhanced by sterling's weakness. On the downside there will be some uncertainty to the final outcome of the CAP 2012 reforms.

8.2 Residential

We forecast that rents for rural residential property will continue to increase in the short term, but only at or just above inflation, in line with the forecasts for mainstream residential rental growth from the Savills Residential Research. The key to driving up real growth from the residential property assets on rural estates will be the conversion of properties currently producing low or zero rental income into market rents. This will include restructuring let farms to release houses with a high rental value whilst maintaining viable farm tenancies. In addition to modest AST rental growth (3% in 2010 moving towards 5% by 2012) our forecasts include a continuation of the historic trend for an increasing proportion of the total housing stock becoming AST tenancies reaching around 55% in 2014 from the current level of 47%.

8.3 Commercial

The income from commercial property on estates is an area which is likely to be under pressure in the current economic climate. Location and quality of the working environment will be key for those seeking to maintain rental levels and reduce void periods.

Using the rental growth forecasts for mainstream commercial property from Savills Commercial Research team and comparing the historic rental growth of this sector with rural commercial assets we have estimated our forecasts. The forecasts for main stream commercial property are for two more years (2010 and 2011) of significant pressure (-9.3% and -5% respectively) on rental growth before positive annual growth is recorded. Rental income in this sector on rural estates has not fallen to the extent that has been recorded in the mainstream market and we believe that this will continue. However, this sector will remain under pressure and we forecast slightly negative growth (-3%) in the 2010 survey results, stabilising in 2011 and around 5% to 7% annual growth in the short term to 2014.

There will be pressure on telecom rents as service providers amalgamate but conversely income opportunities from renewable energy sources, including Feed in Tariffs (FITs) will help balance this.

8.4 Leisure

Similarly but not to the same extent as the commercial sector, we expect some pressure on incomes during the next 12 months. The latest forecasts from Visit Britain suggest that domestic tourism is set for a strong year in 2010 with weak sterling being a key factor. Their latest research quotes that 70% of people surveyed are likely to book a UK holiday this year. The Olympic Games in 2012 will also help the domestic tourism market in the next few years. We estimate, as a baseline for the average estate, no growth in this sector in the 2010 survey year and positive annual growth rising to around 8% by 2014.

8.5 Woodland

This is a sector where opportunities, especially in conjunction with carbon sequestration in respect of climate change, are likely to be available but it is not easy to quantify these or the exact timing of when these might be realised. Taking the average historic performance of rural estates in this area we have forecast no income from this sector in the short term as a base line.

8.6 Sporting

As mentioned above the opportunities for this sector to contribute to the estate’s income stream are likely to be under pressure in the coming years. We have used the average income of the five years to 2009, a nominal £2 per acre, as our annual estimate for the next five years. It is clear that this is an area where resources, including management time, should not be exhausted unless there is a specific opportunity for an estate in this sector and a rigorous business plan is in place.

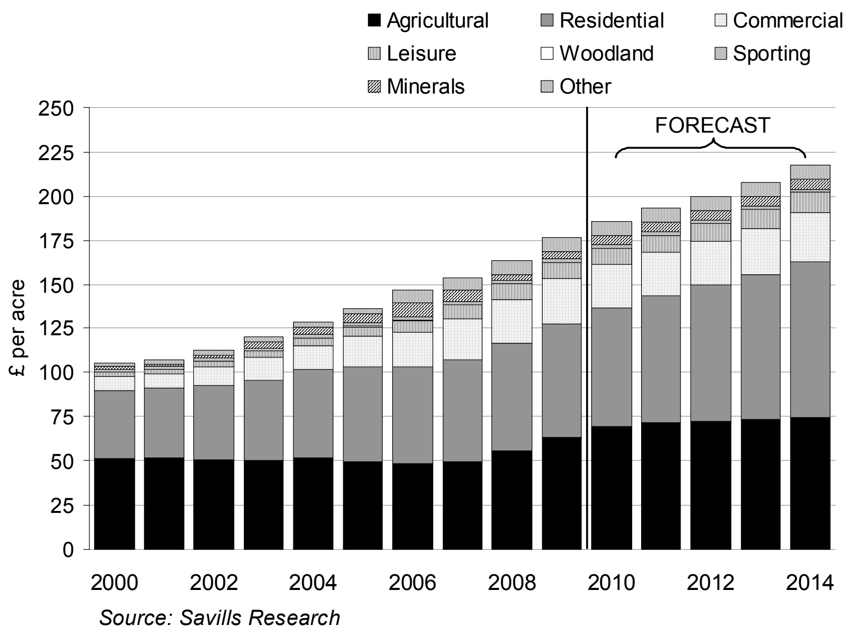
8.7 Minerals

The income derived from minerals, as recorded on the ‘average’ estate will no doubt remain volatile. Minerals are likely to remain a useful income stream for some estates and we have used the average income of the five years to 2009 as our annual estimate for the next five years.

8.8 Other

The survey has recorded a reasonable variation in the amount derived from those ‘other’ factors which can not be categorised under the main headings. However, the general trend has been upwards, and as these are impossible to estimate our forecast forward is at 2009 levels of around £8 per acre per year.

Graph 17. Gross income forecasts



9. Conclsions

This paper concludes that the diversity of rural estates will ensure the future financial success of these businesses, at least in the short term. The forecast analysis estimates that rural estate businesses are likely to emerge from the recession in good shape, although incomes may continue to be under some pressure in 2010 and 2011. As noted in Section 9 of this paper rural estates have fared well in comparison to mainstream farm businesses and the diverse mix of property assets is likely to ensure this continues.

Effective cost management and the targeting of inputs to maximise output, such as property repairs and rental income, across the estate business will ensure that net incomes follow the same trend. Proactive management of all property assets including tenant management to reduce voids will involve a full understanding of tenant's needs and/or businesses. Outsourcing of some estate operations has been shown to deliver a saving to the bottom line.

Ultimately, the success of the business will involve the effective management of all the resources under the control of the estate manager with a focus on those income opportunities that are likely to deliver real performance working to a rigorous business plan.

Knowledge is essential, both of the past and current performance, and this is where the Savills Estate Benchmarking tool will help. In addition, the survey results can be used to monitor existing plans to ensure they stay on track or can be modified and adjusted to new circumstances.

The best practice described above with attention to detail could enhance the income growth describe in our forecasts.

About the Author

Ian Bailey (ibailey@savills.com) is head of Rural Research at Savills. His primary responsibilities include the analysing, modelling, interpretation and reporting on all Savills rural surveys. These include those on farmland markets (UK and international), rural estate benchmarking and farm incomes. In addition his work includes consultancy projects for both public and private sector clients. Ian is a member of the Institute of Agricultural Management.

Savills are just releasing their 2010 English Estate Benchmarking Survey results a summary report of which is available from the author.

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