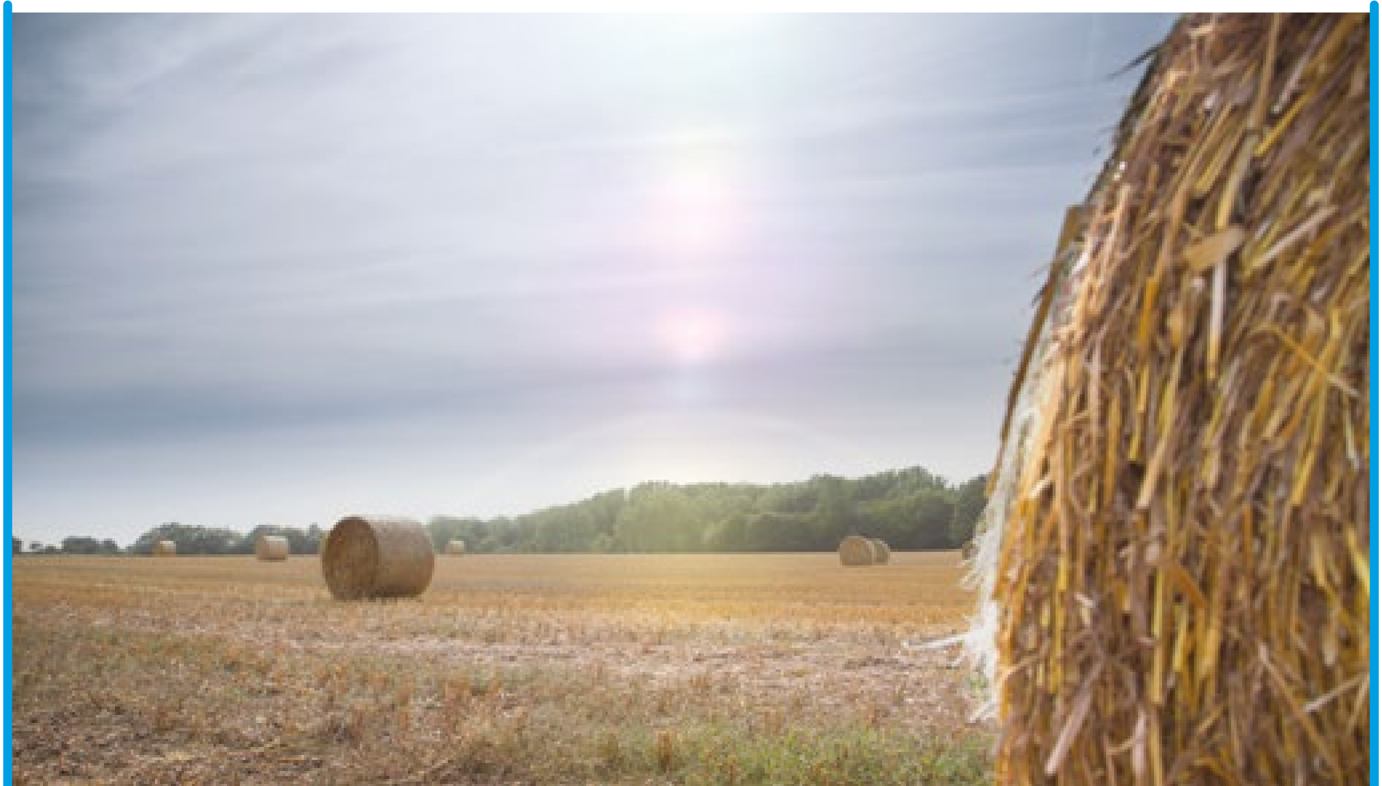

Landed estates: the professionals' view

Our expert report on current trends in the sector and what to consider for the future

Let's go forward

BARCLAYS

Introduction

There's an upbeat mood among landed estates, despite some potential clouds on the horizon, and progressive estates are plotting sustainable futures for their businesses.

Despite near-term uncertainties – not least political ones due to the unknowns around Brexit – the opportunities for estates are there for all to see.

Smart owners are already taking advantage.

Whether building on a favourable investment environment, banking on a more diversified business or blooming as a result of changing leisure patterns, estate owners that are fleet of foot can successfully respond to challenges and capitalise on good fortune.

For this report, we've drawn on our own expertise and gathered insights from a range of industry professionals to build a picture of landed estates today.

With sections delving into the factors driving growth, the strategies underpinning borrowing decisions and the increasing professional rigour in the industry, we look at the major trends happening now and consider how you can help to drive success in the future.

An appetite for growth

Whilst the risks have to be clearly identified and considered, many progressive estates are borrowing to invest, taking advantage of favourable circumstances to grow their balance sheets and shape their businesses for the years ahead.

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73%

Sector experts we spoke to who say landed estates are getting larger

There are many factors driving this mood. Interest rates have been low for some time and, small fluctuations not withstanding, that low interest environment is expected to remain conducive to investment.

But the financial landscape is changing too, and many of those estates that have seen reductions in farming income are looking away from that core income stream towards new opportunities.

Diversification has become vital for the sector, and there's a need to look at the wider asset base and make it sweat.

"I think diversification is key," says Ian Baker, National Head of Landed Estates at Barclays. "It helps spread the risk and having as many different income streams as possible is a good thing – provided they deliver a return on investment."

With diversification, estates are getting larger. This may not be apparent in the amount of land that is owned. However, in terms of assets – including different asset classes such as commercial properties away from the main estate – expansion has been, and still is, on the agenda for many.

This in itself marks a shift in thinking among owners. A few years ago, borrowing against the main estate wasn't the done thing. That's changed, at least among the more progressive estates, which are really starting to press the accelerator.

What is driving investment decisions?

As well as diversification, there are plenty of other factors that are underpinning investment decisions.

The most important considerations are return on investment and return on equity. Tax is not a primary focus for estate owners, although one of the consequences of making an investment decision is that the tax implications need to be considered.

Landed estate owners also take a great deal of satisfaction in upholding their social responsibilities. This is true across all generations, and there's a very strong feeling that providing quality housing, infrastructure and jobs is important.

In fact, many estates are prepared to sacrifice an element of their investment returns in order to focus on their social responsibilities. However, the two are not necessarily mutually exclusive and it could be beneficial for land owners to find the time to consider ways in which they can achieve both.

Investments in green energy, social housing and job creation are just three areas that could tick both boxes, while any job losses caused by productivity-driving automation can be at least partially offset by increasing the number of apprenticeships on offer.

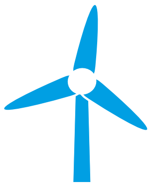
91% Sector experts we spoke to who say that diversification is important

In this regard it's vital to make sure that all advisers are involved from the early stages. We've seen a number of scenarios recently in which someone has sought support from advisors later in the process and it has thrown a spanner in the works.

We're also starting to see a more dynamic land-owning community, one that is keen to build estates back up towards the size they were decades ago. There's a strong sense of pride and a drive among land owners to buy back property which earlier generations had been forced to sell off.

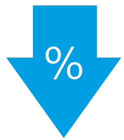
Four key reasons why landed estates are borrowing

Diversification



To buy or improve assets

To take advantage of low interest rates



Investment opportunities

Landed estates are becoming more professional

Professional estate directors and managers are taking an increasingly prominent role in estate management, and those that are successful are being headhunted.

Many progressive owners are now demanding the best people to work on their estates, and it's leading to a more competitive labour market.

100%

Sector experts we spoke to who say succession planning is a key issue for the sector

We're also seeing more corporate finance directors being brought in to run estates, and they bring a very different approach to the sector compared with how estates have been traditionally managed.

They raise a lot more questions over the financial management of the estates and they prioritise increasing returns, so we're seeing more benchmarking and reviewing. These estates are growing more quickly as a result.

This level of professional rigour is something that should also be directed towards one of the major issues still affecting the sector – succession planning.

While legal, tax and other financial planning aspects are generally taken care of well, family planning remains a difficulty for many estates.

The answer is for everyone to know what's expected from an early age, so it's vital to spend some time coming up with a strategic family plan.

Sector experts' view: what tends to contribute the most to estate revenue?

This should be reviewed periodically or if circumstances change, but it's important that people know what the expectations are so they can plan their lives accordingly.

When it does come to passing an estate on, owners want to be able to hand over an estate that is generating sustainable profits – and ultimately they want its overall position to be better than it was when they took it on.

What does the future look like?

So, what's the outlook for the sector? In terms of ownership, estates are still being bought by people who have done well in their professional lives, but doing well means something different in today's society than it did in the past.

That has led to different types of characters coming into the sector, and their views on managing estates – and perhaps even life itself – can be very different to more tradiitional owners.

100%

Sector experts we spoke to who say the outlook is largely positive

"It's great to see, but it's something the wider sector will need to adapt to as the industry develops," says Karl McConville, National Director, Landed Estates at Barclays.

Other adjustments will also be needed if the sector is to tackle some of the challenges on the horizon.

There's apprehension around Brexit and how farming subsidies will work, while the sector is also pondering how any shift in political emphasis could play out – particularly regarding inheritance tax planning.

Some estate owners will be considering whether properties on their estate can meet energy performance requirements and still pay their way.

But these concerns should in no way cloud the opportunities that we're seeing for landed estates. In fact, Brexit is one scenario that could present an equally big opportunity to the sector – for those that put their businesses in a position to take advantage.

Other opportunities include the current benign planning environment and the fact that people are spending more money on holiday and leisure activities in the UK. Estate owners have a chance to develop and diversify and there is scope in the sector to invest more heavily.

"People are missing a trick if they are not geared on a landed estate and have a £50m-£100m capital asset that they're not using properly," says Karl.

"Although it is worth pointing out that we would expect to understand how any borrowing fits within the overall estate strategy, and that we would expect to see a business plan supporting any investment."

So the outlook is sunny, although with perhaps an occasional shower, and the upside prospects far exceed the downside ones – especially for those estates prepared to invest in opportunities when they come along.

But with success measured not only on financial return, it's important for land owners to understand their key performance indicators and make plans to achieve them.

Challenges

- **Uncertainty around Brexit**
- **Potential changes in political emphasis**

Opportunities

- **New possibilities from Brexit**
- **Benign planning environment**
- **Leisure and tourism**

Five ways to drive sustainable success

Make sure there's a clearly defined, well-understood succession plan in place that everybody involved has bought into

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Diversify away from core income streams to spread the risk and maximise revenue potential

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Take advantage of higher domestic spending on leisure and tourism by finding ways to attract your fair share of the cash

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Make the most of the currently benign planning environment to develop your estate and your business

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Be mindful of potential political shifts. Current reliefs and regulations could change at any time, so plan and prepare accordingly

To find out more about how we can help you develop your estate, contact our dedicated landed estates experts:

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