

# LOOKING TO THE FUTURE



Expert insight to help your estate thrive



**NFU Mutual**  
BUSINESS INSURANCE

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# FOREWORD



Sara Mitchell,  
Estates Sector Lead,  
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**When the Coronavirus lockdown restrictions hit, the UK's estates were not immune to its effects. Along with every other sector, they had to rapidly implement measures to ensure their businesses survived.**

However, as we begin to adapt to the 'new normal', and the Government casts more light on the timelines for easing restrictions, land and estate owners need to start looking to the future.

In his lead article, diversification expert James Del Mar opens with a review of the impact lockdown has had across the estates sector.

With an overview of alternative revenue streams, he proposes some key actions that can help estate and land owners as they form their plans for reopening and the longer term.

Following this, estate finance expert Mark Ashbridge provides commentary on the property finance opportunities available to estate owners, comparing this unique moment in time to the last few decades.

At the end of both articles, you will find some suggested key actions that may help you make the transition from the lockdown phase to the next successfully.





# DIVERSIFICATION: STRENGTHENING YOUR ESTATE'S RESILIENCE

by James Del Mar, Executive Director, Rural Solutions

The Coronavirus lockdown restrictions have significantly impacted many rural estates across the whole country. As estates have diversified over the last 50 years, some may have weathered the storm better than others.

Many progressive estates have felt the impact immediately, as day visitor attractions and tourism businesses have been forced to close. Revenue streams for these operations have dried up and staff have had to be furloughed. This is causing a substantial economic and social impact to these estates.

Staffing in particular has been a major issue, with some estates understandably choosing to furlough hundreds of staff. Given the tight-knit nature of estate communities, this process can be extraordinarily painful. In most cases, many have tried to only furlough those whose earnings are at or below the Government's £2,500 per month threshold to minimise the negative financial impact. Hopefully this approach will be sustainable, as redundancy and continued furloughing is highly likely to impact on tenants' ability to pay rents.

Some of the major entrepreneurial estates have large reserves. Whether Trustees will be willing or able to allow those reserves to be utilised to prop up certain operations will remain to be seen. In most cases, the approach

has been to reduce costs wherever possible.

## LONG-TERM SKILLS RISKS

With the seasonal nature of visitor attractions and house openings, many estates are unlikely to fully reopen until next spring. Unless restrictions are lifted in time for a decent portion of the summer, the costs of opening could outweigh the revenue opportunity. We know that the Government's Job Retention Scheme is finite – so there is an inherent and very real future risk of redundancy and loss of talent within the sector, unless estates redeploy staff or furlough at their own expense.

The potential loss of talent extends well beyond those directly involved in hospitality and leisure. Reduced estate income will inevitably prompt some businesses to cut back on maintenance and improvements. There is already a rural skills shortage, so beyond the potential redundancy cost and immediate damage to the working community of the estate, the loss of skilled workers could be irreversible; there is no guarantee that they'll be available to be reemployed in the future.

For these reasons and more, it's beholden on all businesses, including land and estate owners to keep the wheels turning.



## LOOKING TO THE FUTURE

**For decades, diversified estates have been somewhat protected against various crises, such as drought and agricultural disease, that have impacted more traditional operations.**

Diversification spreads risk, as well as increasing the opportunity for income during normal conditions.

Consequently, as estates begin returning to their long-term plans, diversifying remains a strong option to consider. They can now do so with the ability to build in resilience for potential lockdown scenarios in the future.

When lockdown was initiated, many estates had major development plans underway or on the horizon. It's natural, indeed sensible, to take stock with a crisis of this magnitude, yet aborting or delaying previously agreed expenditure and projects can be unwise, unless they threaten your immediate ability to survive.

**Serious consideration needs to be given to the range of abortive costs, including:**

- the ability to start at a future date;
- the threat of competitors stealing a march or gaining your market share;
- the estate's loss of talent, labour and skills.

For those without specific developments in mind, once the disaster planning is finalised, this is a good time to evaluate future business resilience and to capitalise on the new opportunities that will arise in the post-Coronavirus world.

There are no silver bullets for estate diversification. As businesses, they're highly subject to a range of factors, from their local geography and demographics, to the passions and interests of the owners. So, with the wide range of diversification options, each comes with its own unique possibilities and considerations that must be thoroughly explored.

### OFFICE SPACE

As a nation, our relationship with office spaces has been changing over the decades, from individual space to open plan and now remote working is becoming more common. Prudent tenants have used Coronavirus as an opportunity to negotiate lower costs, which has a direct impact on landlords.

Even those in longer-term leases are having similar discussions, and we can only expect this to accelerate as Coronavirus has forced businesses to further embrace remote working. In both cases, it's unlikely that office space will disappear altogether from estates, but landlords will need to quickly adapt to the changing needs.

Many estates have started to run fully-serviced office spaces to create a trading income (as opposed to investment income) often operating with very flexible terms.

Post-Coronavirus, you would expect that the current desk-to-employee ratio will reduce as more people spend more time working from home. Conversely, social distancing will require more space per desk. There are various schools of thought as to which way this pushes demand for urban central office space, but it seems prudent to expect a substantial increase in demand in good quality, accessible, broadband-connected offices within easy reach of major population centres. Successful estates will need to continue offering this good quality, flexible space, in convenient and beautiful locations with other outstanding facilities.

As well as, excellent broadband being essential, other facets are also likely to be required if occupancy rates and rental levels are to be maintained; further consideration therefore needs to be given to creating an attractive workplace offering. By providing gym facilities, cafés, outdoor exercise space, children's day care, you can create a really exciting rural business and activity hub.

Estate owners will want to understand how people are now likely to want to use their office space – it's unlikely to be on a nine-to five, five-days-a-week basis. Therefore, the key to success is about building a new approach and operating model. You can imagine a world in which, for example, companies exchange paying London weighting for a contribution towards the subscription at a rural business hub: the employee has a dedicated space they can work in and run meetings from without distractions, with added social and personal benefits in the same space.

### EDUCATIONAL AND SOCIAL

There is a real opportunity and strong desire in the sector for education to be included in ecological services and the social benefits are widely accepted. We know that facilitating access to farms as part of our children's education builds greater loyalty to British farming and their produce as communities better understand the food supply chain.

We have a golden opportunity now to further build on the massive take-up that farm shops and quality rural suppliers have witnessed since March.



### SAFARI PARK, NORFOLK

This exciting project centres around a unique and striking ‘stingray-inspired’ design for the main visitor building. The site has been designed to create a new wildlife conservation reserve in Norfolk, with a purpose-built education facility, clubhouse and guest lodge accommodation.



We also know that the Nation's physical and mental health will improve by exercising more. One positive of the lockdown is that it has created a heightened awareness of the countryside, and an eagerness to spend leisure time there. Rural Britain was popular before Coronavirus – it will be hugely in demand afterwards based on availability, accessibility and concerns regarding travel and foreign holiday destinations.

The challenge will be how to monetise this new wave of support for rural Britain sustainably. The Government doesn't currently cross-subsidise funding for countryside, health and education. Estates are therefore more likely to succeed by integrating visitor and educational centres with retail, farm shops and cafés and children's play areas. By doing so, resilience can be built in through a multi-faceted offering.

### MEMORIAL GARDEN AND BURIALS

The market for burial, cremation and treatment of ashes continues to adapt and grow, and provides the opportunity for a very interesting, profitable business model for estates. As the options have increased, bereaved families are looking to less conventional means of saying farewell to loved ones. It's no surprise that people are drawn to the beauty of countryside nature.

Rural Solutions has recently closely worked with an estate to secure planning permission for an 8-acre walled memorial garden, within the grounds of a Grade II\* Listed House in green belt. The space will be designed by a Chelsea Gold Medal award-winning landscape architect, and will provide a tasteful, discreet and peaceful space that can be used alongside the estate's own gardens and facilities.

Any project like this needs careful consideration of the infrastructure, including the natural geography, location and access, as well as their relationship with members of the undertaking profession. As with any multi-faceted business model, careful consideration is needed of the chosen business partners to ensure the estate shares the appropriate element of risk and maximises profits.

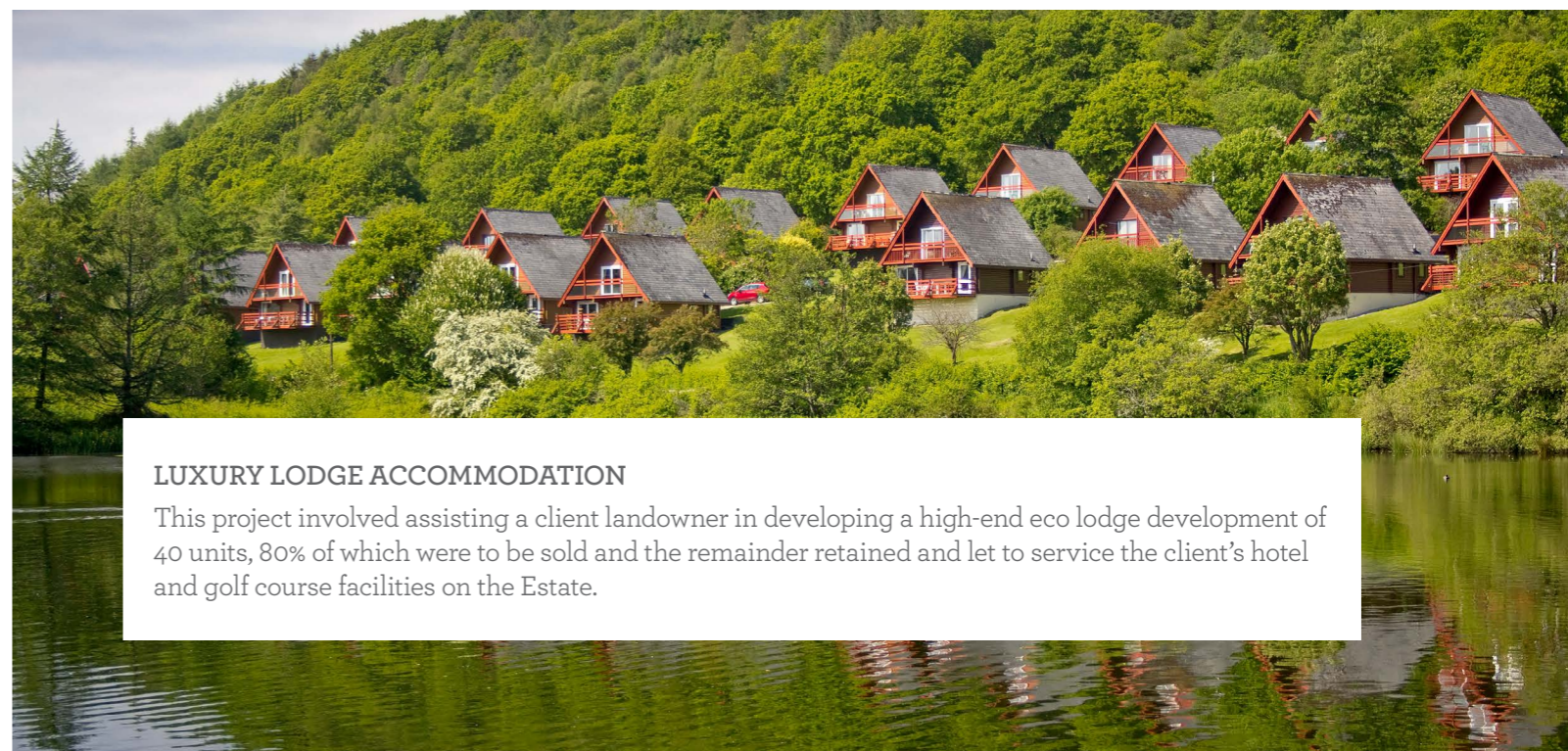
### STAYCATION AND HOLIDAY LETS

Historically the letting of cottages to employees and local people has provided social cohesion and created a latent demand for local services – often also estate-based businesses.

This has served to keep the schools, pubs and retail elements sustainable all year round. Consequently, converting residential property to holiday lettings can bring radical and not always beneficial change to the dynamics of an estate village.

However it is approached, whether by utilising existing housing stock or converting non-residential property into holiday-letting property, an increase in stock is probably imminent to cater for the likely increased demand for 'staycations'.

Those that are successful will focus on their target market very carefully. Some will address a high-end clientele seeking top quality



### LUXURY LODGE ACCOMMODATION

This project involved assisting a client landowner in developing a high-end eco lodge development of 40 units, 80% of which were to be sold and the remainder retained and let to service the client's hotel and golf course facilities on the Estate.



accommodation. Others will be more mainstream – what is becoming clear though is that the full spectrum is becoming ever more discerning, and demand a real experience from their holiday location.

If you're planning to do this on a scale larger than the odd cottage, it's vital to ensure that the right buildings are selected for conversion – or appropriate land given to new buildings or glamping sites. The importance of the experiential elements means that these projects are best undertaken as part of whole-estate planning, rather than by a piecemeal approach.

### VITICULTURE

There tends to be two distinct types of operator in this market. The first group's interest is fundamentally commercial. They are seeking to capture and develop market share and very often have supporting operations, such as weddings, hospitality and retail.

At the other end of the spectrum, we also see those who are true enthusiasts, and they invest

in viticulture out of their own passion. Sometimes they too will take a commercial and diversified approach, creating symbiotic points of interest and attraction, all serving to increase dwell time and average spend. In other cases, it may simply be a private enterprise.

The good news for both is that the market is holding up well. Although viticulture is of course very geographically specific, planning permission is relatively easy to obtain. Ultimately, the success of the venture will depend upon accessibility, price point, footfall and creating an interesting USP to attract visitors and customers.

#### UK viticulture stats

- Acreage has tripled since 2000
- Exports may account for 30-40% of the total wine produced in Great Britain by 2040, yielding a potential value of £350m per annum.

Source: Wine GB, 2019.

### VISITOR ATTRACTIONS

For those more entrepreneurial estate owners there is still an appetite to diversify into visitor and leisure attractions, despite the impact of Coronavirus. Many can see that current restrictions will lift, and recognise that any sizeable projects starting to be considered now will be two to three years away from launch.

For any new undertakings, Trustees will certainly want to look very closely at risk and rates of return. They'll also want assurance that it can be shut down at low cost, should any future restrictions require it.

### ON-SITE OPERA HOUSE

The creation of an outstanding new space within a Grade II\* listed stable block has enabled a local opera festival to thrive and benefit from the local visitor economy. The opera company has also forged close links with schools across the region and worked with 1,500 school children to introduce them to opera.

The new auditorium has an orchestra pit, stage and balcony enabling the acoustics to be significantly improved. The scheme will also safeguard 40 full and part time jobs as the length of the opera season can now be doubled due to the new building.

## CONCLUSION

The sudden and far-reaching consequences of Coronavirus are frequently cited as being unprecedented. There is no doubt that the depth and breadth of the impact is massive – but many estates will have been through not dissimilar challenges before.

Rural businesses need to be especially diligent in learning from all this, reviewing resilience and preparing for the future.

If there is any part of the current business model that is not working in a risk-acceptable way, now is the time to address that.

Estates also need to look to their long-term development plans. In the initial days of lockdown, every business was fighting day-by-day to stay alive. Now that those urgent pressures begin to ease, it's imperative that land and estate owners look to the future and shape their plans to be best prepared.



**JAMES DEL MAR, EXECUTIVE DIRECTOR AT RURAL SOLUTIONS**

James has been immersed in the rural and estates world for 30 years. He started as a land agent with Strutt & Parker and then moved to Knight Frank, where he ultimately became Head of Rural Consultancy. He is now a Director at Rural Solutions where he continues to focus on estate and rural business strategy, rural diversification and development. He brings a wealth of insight to help farming, estate and other countryside businesses develop and expand successful revenue streams.

# THE INVESTMENT LANDSCAPE

by Mark Ashbridge, Managing Director, Ashbridge Partners

Over the past few weeks, I've been reflecting on how quickly people, businesses and nations can adapt when faced with stark choices. It's been extraordinary. This offers us hope that real change can be delivered when driven by necessity, underpinned by consensus and enabled by the right technology.

### HISTORICAL BACKDROP

In the context of these recent events, the farming and land-owning industry represents stability and longevity. Many of the estate businesses that I work with have – over their several hundred years of tenure – experienced civil war, plague, economic depression, world wars and high taxation. This latest crisis will have far-reaching implications for many businesses and their people, but our overall way of life will continue.

During my 25-year career in the agricultural and finance industries, those with owned property assets have continued to thrive. Land and residential property values have multiplied whilst debt costs have fallen from the relative highs of the early 1990s.

The financial crisis of 2008 continued this trend, with Government liquidity further inflating values whilst debt

costs fell to historic lows in 2009. This has been the pattern of the last decade.

### TODAY'S OUTLOOK

There are of course significant geographic variations. For example, residential values in Central London and other southern regions far outstripped those in the North East and the viability of developing commercial property near wealthy southern towns is more financially compelling than attempting this in South West Scotland.

Much of the population now have greater disposable income and the leisure time to spend it. This has resulted in more experience-based activities, short breaks and niche providers of food and drink, to name a few, all of which represent opportunities for food producers and land owners.

We have also seen significant opportunities in renewable energy including wind, solar, and anaerobic digestors. In short, the owners and managers of rural land and property have a whole array of business opportunities to consider. When viewed against the last 75 years, it's a very positive outlook.

### UNIQUE POTENTIAL

In banking terms, land owners have a competitive advantage versus most other business types. They tend to have strong balance sheets with plenty of available security. Also, they can often access loan monies on more competitive terms and repayment structures than other industries. For example, they can typically obtain long-term fixed-rate loans of 10-30 years, commonly on interest-only facilities, and at market leading rates.

Since the financial crisis of 2008, the banks have focused on lending to agriculture because it meets their obligations to lend to small and medium-sized business whilst minimising their depositors' risk. I don't see this picture changing for the foreseeable future.

This lower cost of money may improve the viability of investment

opportunities both on and off the estate. For instance, developing and retaining houses on existing land might offer an investment return of roughly 6%. Given that 10-year interest-only finance can be typically sourced at rates of 2.5%-3.0%, would this rate now meet your returns targets?

### CONCLUSION

Landed estates and farms are generally well placed to benefit from the opportunities that will arise following lockdown. More importantly, they're likely to have the capital base in which to raise bank funding to realise those opportunities. With a supportive banking market and historically low interest rates, it's well worth considering those long-term investment options and reviewing any existing debt facilities.



#### MARK ASHBRIDGE, MANAGING DIRECTOR AT ASHBRIDGE PARTNERS

Mark has focused on the landed estates world all his career, first as a farm consultant with Andersons, then as a banker with Clydesdale before setting up the Farm and Estates department at Savills Private Finance (SPF). After 8 successful years at SPF and having reached equity directorship, he set up Ashbridge Partners Ltd in 2012 and today manages a team of 6 people.

## KEY ACTIONS TO CONSIDER

### BUILD RESILIENCE NOW

#### Stress test your financial model

- Reassess your existing risk and future appetite in light of the recent lockdown.
- Consider the implications of either a full or partial lockdown in the future.
- You may need to reset target returns for specific business activities.

#### Review your Coronavirus plans

- How effective were your business continuity plans during this time? What needs adding or amending?

### FUTURE PLANNING

#### Take a holistic look at your business

- Include your strategy, structure and objectives. Are they still fit for purpose?
- Which business activities should you continue? Do you need to pull back on your commitment to others?
- With the prospect of higher taxation in the coming years, you may wish to consider how best to pass assets to the next generation.

#### Establish future areas of growth

- Undertake a competitor and/or gap analysis to identify any opportunities for growth or development.
- Analyse your current processes, offering and assets. Are any under-utilised that could become powerfully positive attributes for you, your estate and your community?
- Review your finances to see what investments are now viable to make.

### MANAGE THE REOPENING

#### Engage relevant partners

- Work with contracted partners such as event management companies, retail or hospitality businesses to agree the appropriate reopening schedule.

#### Communicate

- Once you've agreed your timeline for reopening, work with your PR agency or in-house teams to communicate with the local public and wider customer base.

#### Protect your staff and visitors

- Seek out any additional Health & Safety guidance to ensure your employees, tenants and customers are protected while on the estate.





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ART-CVEST-0720