

Scottish Estate Market Review

Spring 2018



Reduced availability but continuing demand

The days are lengthening, surviving pheasants are visibly relaxing and the Six Nations Championship is in full swing – spring is in the air! As agents for estates, this is a time of intrigue and optimism – as it is often during the spring months of February, March and April that we meet new clients, inspect new estates and win the instructions which will shape the performance of the agency sector for the rest of the year.

Before looking forward, we look back by analysing the transactional data from the estates sold during 2017. This exercise is always fascinating as it usually confirms some instinctive impressions whilst also identifying other unexpected statistics, and our review of 2017 is no different in this respect.

The first surprise is the volume of transactions, with 16 estates sold in 2017 compared with 25 in 2016 representing a 36% reduction. During the same period, the number of estates offered for sale has also reduced by 22% – from 36 in 2016 to 28 last year, and the combined total area of estates offered for sale has reduced by 32% from 182,000 to 124,000 acres.

Although this reduction in availability and transactional activity appears significant, some perspective is required.

Continued overleaf.

The market at a glance

Supply

- 16 estates were sold/under offer during 2017 compared with 25 in 2016 – a 36% reduction in volume of transactions.
- 28 estates were offered for sale during 2017 compared with 36 in 2016 – a 22% reduction in availability.
- 124,000 acres were offered for sale in 2017 compared with 182,000 in 2016 – a 32% reduction in total area available.

Demand

- 57% of the estates offered for sale were sold, compared with 69% in 2016 and a 5-year average of 57%.
- 38% of buyers were international in 2017 compared to 25% in 2016 and a 5-year average of 28%.
- 25% of buyers were Scottish-based in 2017 compared with 42% in 2016 and a 5-year average of 30%.

Pricing

- About £71m was spent on purchasing estates in 2017 compared with £99m in 2016 and a 5-year average of £69m.
- The average estate sale price was £4.45m in 2017 compared with £3.95m in 2016 and a 5-year average of £4.20m.
- 30% of estates were sold in excess of their asking price in 2017 compared with 60% in 2016 and a 5-year average of 55%.



Robert McCulloch

Head of Estate & Farm Agency
in Scotland

T: 0131 718 4593

E: robert.mcculloch@struttandparker.com

Market overview

Continued from page 1

The five-year average of estate sales in Scotland (2013-2017) is 17 per year. This includes just seven transactions in 2014 when the market was undoubtedly affected by the Scottish independence referendum.

Politics has a fundamental bearing on most market sectors. In our view, it is no coincidence that the number of Scottish estates for sale decreased during 2017 given that it was a year in which the Scottish National Party (SNP) lost seats in Westminster and the prospect of an imminent second referendum on independence receded. Our impression is that some hitherto unsettled estate owners gained confidence that the perceived threats that an independent Scotland might pose to the management, enjoyment or value of their estate had been reduced – at least for the time being.

A common perception of the Scottish estate market is that it is dominated by overseas purchasers but analysis of the statistics shows that this is not the case. In 2017, 38% of estate buyers were international whilst the 5-year average for international purchasers is 28%. This shows that although overseas investment in Scotland is certainly significant, the majority of buyers are British-based, including many Scots.

Each year brings fresh challenges to buyer and seller sentiment and this year is no different. The evidence of 2017's activity however, should give those considering selling or buying a Scottish estate the confidence that, with the correct advice, a sale can be achieved or a purchase secured.

Supply and demand

During the course of 2017 fewer estates were offered for sale and were sold in 2017. By the year end, 16 had been sold or placed under offer representing a 57% 'conversion rate' from estates available to those sold. In the context of the last five years (2013 to 2017), the number of estates sold in a single year has varied from seven (in 2014) to 25 (in 2016) and the conversion rate has varied from 33% (in 2014) to 69% (in 2016).

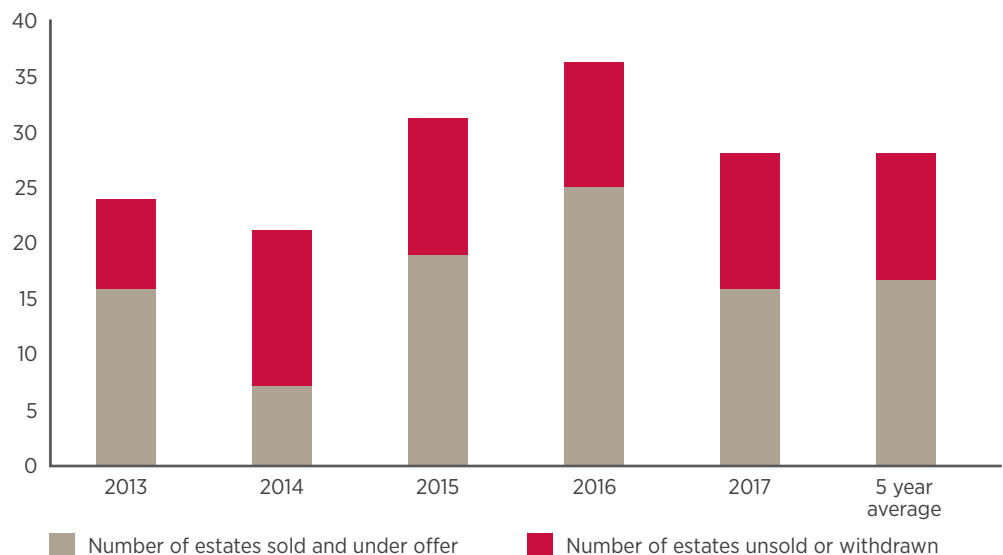
Strutt & Parker acted as selling agent for 6 out of 16 transactions representing 38% of market share. We also represented the purchaser in a further two deals resulting in our direct involvement in 50% of the estate transactions to have occurred during the year.

Table 1 and chart 1: Number of estates marketed and sold (%)

N.B. The data includes publicly and privately marketed estates of which we are aware. Marketed privately means that the estate is not publicly advertised but offered to selected potential buyers. Conversion rate shows the number of estates sold (sold and under offer) as a percentage of the number marketed (which includes estates still for sale and withdrawn from the market).

Our analysis of the reasons that 12 estates failed to sell or were withdrawn from the market includes geographic isolation (e.g several estates in the outer Hebrides and Sutherland failed to find buyers), a relatively small extent of land offered for sale together with a large principal house/castle or lack of exposure to the open market.

	2013	2014	2015	2016	2017	5-year average
Number of estates marketed (open market and privately)	24	21	31	36	28	28
Estates marketed privately	3	9	3	10	8	7
Number of estates sold & under offer	16	7	19	25	16	17
Conversion rate (%)	67	33	61	69	57	57



'Strutt & Parker were directly involved, as selling or buying agents, in half of the estate sales in 2017.'

Table 2: Total area of estates marketed and sold in Scotland (acres)

NB Figures are rounded to the nearest 100 acres.

	2013	2014	2015	2016	2017	5-year average
Total area offered for sale	131,500	69,500	133,700	182,000	124,400	128,200
Total area sold & under offer	79,300	44,100	114,300	136,100	75,200	89,800
Total area unsold & withdrawn	52,200	25,400	19,400	45,900	49,200	38,400

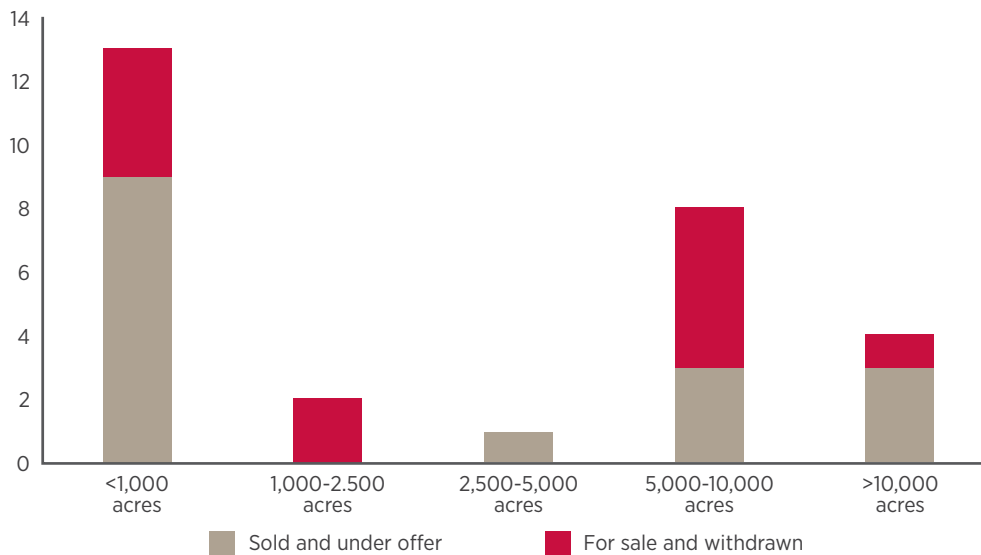
The types of estate sold or under offer in 2017 can be categorised broadly as follows:

- Upland Sporting Estate – 6
- Residential Estate – 6
- Agricultural Estate – 1
- Other (e.g forestry/renewables) – 3
- **Total – 16**

Size of estates

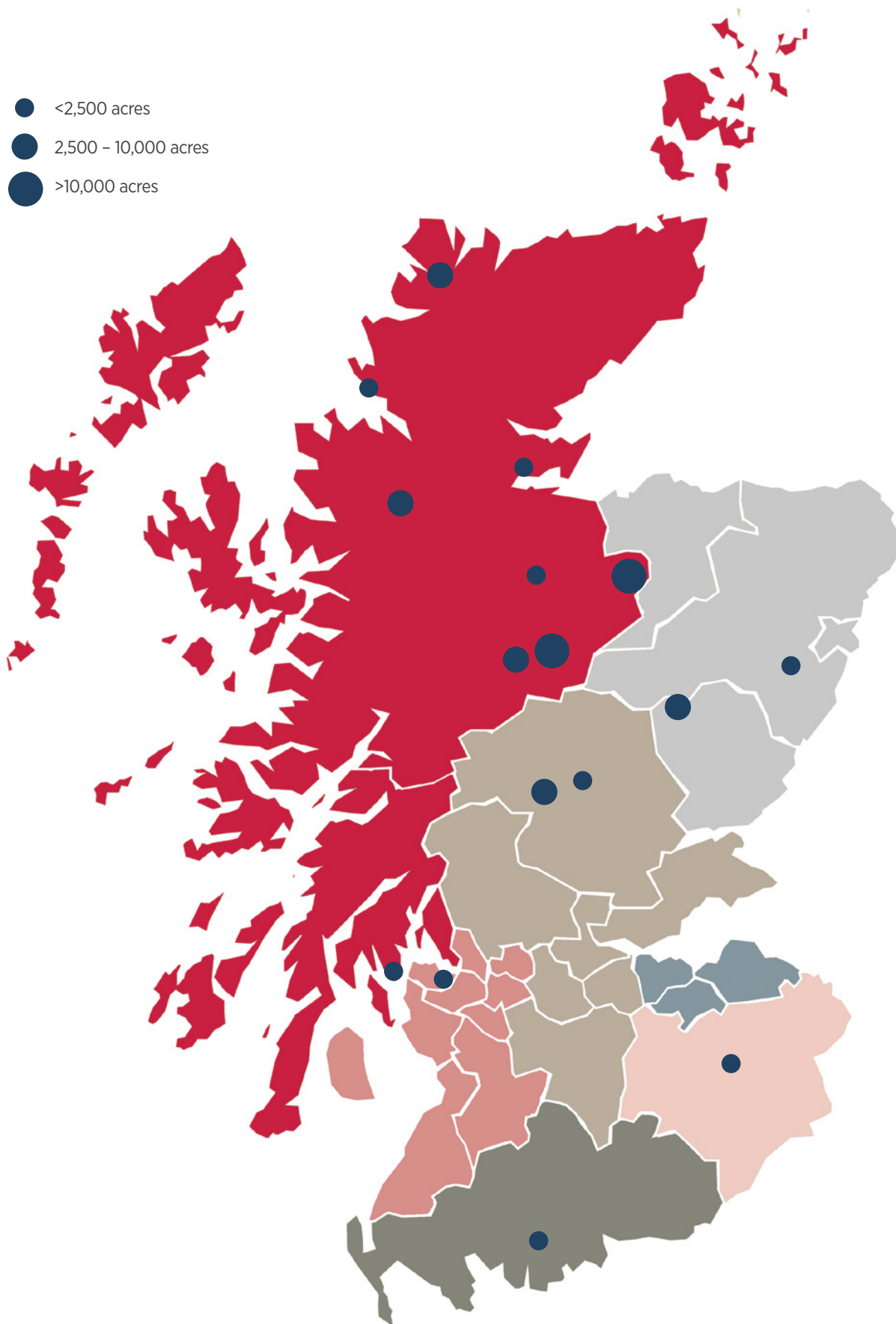
Table 3 and chart 2: Size of estates marketed in 2017 by sale status (acres)

	<1,000 acres	1,000 – 2,500 acres	2,500 – 5,000 acres	5,000 – 10,000 acres	>10,000 acres	All sizes
Sold & under offer	9	0	1	3	3	16
For sale & withdrawn	4	2	0	5	1	12
Total	13	2	1	8	4	28



'In 2017, 28 estates were offered for sale both on the open market and privately via all firms of agents. By the year end, 16 had been sold – a conversion rate of 57%.'

Figure 1 Estates sold by location and size



Demand

Types of buyer

Six of the 16 estates sold or placed under offer were purchased by overseas buyers, representing 38% of transactions. This compares with six overseas-based buyers out of 25 in 2016 (25%) and a five-year average of five overseas buyers per year - average proportional international investment of 32%.

During the last five years, 68% of Scottish estate buyers are British-based, of which an average of 60% are English-based and 40% are Scottish-based.

Key factors attracting buyers to Scottish estates

- The pleasure and pride associated with the opportunity to own, enjoy and improve an often beautiful and sometimes extensive part of the country.
- The emotional attraction of Scotland, due to its heritage, architecture, cultural history, beauty, range of sporting and recreational pursuits, seclusion and privacy combined with relative accessibility.
- The size of estates available (e.g up to and over 20,000 acres) and their relative affordability compared with other forms of discretionary property investment.
- Opportunities for capital growth – e.g., investing in and improving the principal house and additional properties; restoring a redundant/underperforming sporting asset – e.g., grouse moor, pheasant shoot or salmon river; establishing or improving an in-hand farming business; establishing/improving commercial forestry and renewable energy projects etc.
- The historic performance of this sector which consistently demonstrates that prudent capital investment during the period of ownership can be rewarded through the price achieved at the point of sale.

Pricing

In 2017, of the 16 estates sold or placed under offer, one was priced in excess of £20m (Tulchan Estate on Speyside – guide price £25m), one was priced between £10m and £20m (Bolfracks Estate in Perthshire – offers over £10.85m) and the remaining 16 estates were priced below £5m.

Table 4 and chart 3: Guide price of estates marketed for sale in 2017

	<£1m	£1-2.5m	£2.5-5m	£5-10m	>£10m	All estates
Sold & under offer	0	8	6	0	2	16
For sale & withdrawn	1	2	8	1	0	12
All estates	1	10	14	1	2	28



‘Most of the estates marketed as sold in 2017 were priced below £5m.’

Key political and economic factors affecting the estates market

Whilst not an exhaustive list, the following factors are of particular relevance to those considering selling or buying an estate in Scotland:

Brexit. At the time of publishing this review, we know that the UK is scheduled to formally leave the European Union (EU) at 11.00am on 29 March 2019 and we know that the three key 'divorce issues' (what the UK owes the EU, whether or not there will be a 'hard border' between the UK and the Republic of Ireland and what happens to UK citizens living in the EU and vice versa) have been agreed. With talks having now moved on to future relations and plans for a two year 'transition period', much of the detail has yet to be agreed and as such the uncertainty for individuals and businesses continues. This uncertainty affects most businesses and the typical buyer of a Scottish estate is someone who owns or controls a flourishing UK-based business or has recently sold one.

Potential Scottish Independence. The Scottish political landscape has shifted significantly since writing this review last year. Then, the prospect of a second independence referendum was on the horizon and existing and prospective owners of Scottish estates were concerned about the long-term effects of the political agenda in respect of both land and landowners.

Roll forward 12 months and the possibility of a referendum seems vastly reduced. This appears to have boosted confidence and encouraged buyers and sellers in the Scottish estate market.

Land Reform. The Land Reform (Scotland) Act in 2016 has resulted in the establishment of the Scottish Land Commission which has a stated purpose to provide direction, leadership and strategic thought to land reform in Scotland. The Commission has published its three-year Strategic Plan which sets out its vision, objectives and priorities for the next three years.

With a vision of "a fair, inclusive and productive system of ownership, management and use of land that delivers greater benefit for all the people of Scotland", the plan outlines the Commission's priorities for the next three years which is guided by the strategic objectives of productivity, diversity and accountability. The Commission's work is focussed on four key areas covering both urban and rural land, as follows:

- Land for housing and development
- Land ownership
- Land use decision-making
- Agricultural holdings

The function of the Land Commissioners is to:

- Review the impact and effectiveness of any law or policy introduced by Scottish Government.
- To recommend changes to those laws or policies.
- To gather evidence, carry out research, prepare reports and provide information and guidance.

The Land Reform Commission will play an influential role as the Scottish Government continues on its land reform agenda and we recommend that prospective and existing Scottish landowners take careful account of its strategic plan.

Re-introduction of Sporting Rates. As part of the Land Reform (Scotland) Act 2016, the Scottish Government reintroduced business rates on shooting and stalking rights in Scotland. With effect from 1 April 2017, there was a great deal of concern amongst the landowning and sporting fraternity in Scotland that this measure would add a significant annual cost to the ownership of sporting estates resulting in a consequential increase in the price charged for letting sport to the point of being uncompetitive (and unattractive) to potential tenants.

Whilst some estates will suffer a new and unwelcome additional annual cost from sporting rates, the majority are likely to qualify for an exemption under the Small Business Bonus Scheme where the combined Rateable Value of qualifying business assets on the estate is less than £15,000.

At present most local authorities (who are responsible for administering sporting rates) are suffering a backlog of initial rate assessment appeals.

There is no evidence at this stage that the reintroduction of sporting rates has impacted market activity.

Grouse Moor Management. In response to incidences of wildlife crime allegedly associated with grouse moors in recent years and accusations that management practices such as heather burning are damaging to the environment, the Scottish Government has commissioned the establishment of an independent group to ensure moorland management practices are sustainable and legally compliant.

In announcing the establishment of the group, Scottish Environment Secretary, Roseanna Cunningham, said: "We have been clear that the continued killing of protected species of birds of prey damages the reputation of law-abiding gamekeepers, landowners and the country as a whole. This new group will look at what we can do to balance our commitment to tackling wildlife crime with grouse moor management practices, so it continues to contribute to our rural economy, while being sustainable and compliant with the law.

"The group membership reflects the complex nature and wide range of issues that need to be considered and I look forward to hearing their advice in due course."

Existing and prospective owners of grouse moors and their advisors await the the first report of this panel with interest.

Three estates featuring grouse moors were sold in 2017 so there is no evidence at this stage that increased scrutiny of the management of grouse moors is affecting trade for them in the market place.

Outlook for 2018

The commentary and statistics in this report both demonstrate a reduction in the availability of estates for sale and suggest a strengthening of demand for the relatively few that are available. This impression is underlined by our direct experience of the interest generated in the two estates that we are offering for sale in this early part of the year. One is privately available (an upland sporting estate in southern Scotland) and another is on the open market (Hensol Estate in Kirkcudbrightshire – priced at £4.25m) with both having attracted several viewings by new entrants to this sector at a time of year when little viewing activity is expected.

This suggests to us a re-emerging recognition – particularly from British purchasers – that prospective and existing owners of Scottish estates have much less to fear from the Scottish Government and their land reform agenda than was perhaps previously perceived.

The Scottish National Party's attitude and outlook towards the land and estate owning fraternity appears to be changing, or at least softening. The Land Reform Bill when originally proposed, gave rise to some concerns (e.g a cap on the number of acres an individual could own; restriction or prevention of foreign ownership; the introduction of an annual land tax etc) which have not come to fruition whilst some of those measures that have been introduced are not as punitive as first feared (e.g the reintroduction of sporting rates, land registration and red deer management).

As all those who understand rural Scotland are aware, the very significant annual investment from many of its estate owners is a fundamental factor in keeping fragile rural economies on their feet and this is openly recognised by Fergus Ewing, the Cabinet Secretary for the Rural Economy and others within the Scottish Government. It is our belief therefore that the introduction of legislation which fundamentally impacts on that investment (an outright ban on game shooting, for example) is unlikely.

In our view, buyers and sellers in the market are coming to a similar conclusion which is manifesting itself in a strengthening of demand for, and restriction in supply of, estates for sale which reflects both the statistics presented here and our direct experience.

As we look ahead to a year in which, for the first time since 2013, we do not expect either a general or Scottish government election, we predict a Scottish estate market which continues to be demand-led resulting in between 15 and 20 sales being achieved from an offering of fewer than 30 estates for sale.

“*The introduction of legislation which fundamentally impacts on investment - an outright ban on game shooting, for example - is unlikely.*”

If you are considering either buying or selling an estate in Scotland and would like to have a confidential discussion by telephone in the first instance, please contact **Robert McCulloch** on direct dial **0131 718 4593** or **07734 545 972**

Contacts



Robert McCulloch – Edinburgh
robert.mcculloch@struttandparker.com
T: 0131 718 4593



Andrew Rettie – Edinburgh
andrew.rettie@struttandparker.com
T: 0131 718 4590



William Dalrymple – Edinburgh
william.dalrymple@struttandparker.com
T: 0131 718 4481



Diane Fleming – Edinburgh
diane.fleming@struttandparker.com
T: 0131 718 4591

Estates Sold by Strutt & Parker in 2017



Offers over £10.90m

BOLFRACKS ESTATE, ABERFELDY, PERTHSHIRE – about 3,790 acres

A historic and productive mixed-use estate in the heart of Highland Perthshire.



Offers over £2.28m

CHAPEL ON LEADER ESTATE, ROXBURGHSHIRE – about 438 acres

A stunning residential and sporting estate in the heart of the Scottish Borders.



Offers over £1.875m

KNOCKDOW ESTATE, ARGYLL – about 250 acres

A beautifully positioned residential estate overlooking Loch Striven and the Kyles of Bute.



Offers over £4.50m

LEDGOWAN ESTATE, WESTER ROSS – about 11,105 acres

A majestic west Highland sporting estate with red deer stalking, fishing, renewable energy and forestry potential.

Methodology

All data in this market report is from Strutt & Parker's database of privately and publicly marketed estates over 100 acres in Scotland. It has recorded detailed information on the farmland, buildings and soils as well as buyer and seller profiles since 1996, and so is one of the most comprehensive databases available. What makes it different to other databases is that it records sold prices (i.e. what the estate exchanged contracts for) as well as guide prices, and so is a more accurate reflection of actual market conditions as guide prices can overstate or understate the prices that buyers are willing to pay. Once an estate is exchanged, we have assumed it is sold, following HMRC custom.

© BNP PARIBAS REAL ESTATE ADVISORY & PROPERTY MANAGEMENT UK LTD. ALL RIGHTS RESERVED No part of this publication may be reproduced or transmitted in any form without prior written consent by BNP PRE. The information contained herein is general in nature and is not intended, and should not be construed, as professional advice or opinion provided to the user, nor as a recommendation of any particular approach. It is based on material that we believe to be reliable. While every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors. Strutt & Parker is a trading style of BNP Paribas Real Estate Advisory & Property Management UK Limited, a private limited company registered in England and Wales (registered number 4176965) and whose registered office address is at Aldermanbury Square, London EC2V 7BP.