SPOTLIGHT
Savills Research

UK Rural - November 2020

Farm Diversification

savills

Rural Vibrancy Index • Case studies • Planning and funding a diversification

65%
Of all farms have some type of diversified activity

5.5%
The amount by which the RVI rose in 2019

1.6%
The amount by which the RVI is forecast to rise in 2020

Resilience amidst adversity

Estates and farm businesses in the UK have found creative ways to respond to the Covid-19 restrictions and changes in consumer behaviour

This Spotlight features our updated Rural Vibrancy Index, which tracks some of the key economic and social factors influencing farm diversification. We explore opportunities and key consumer trends for 2021 through a series of business case studies. In addition, at a time when many businesses are struggling, we focus on innovative ways to fund diversifications and improve communication through the power of social media.

The UK, like so much of the world, was desperately unprepared for the pandemic. For farmers and landowners it came at a time of existing disruption as Brexit and the consequential reform of agricultural and rural development policy challenged business plans.

As well as the serious effects on people's health and wellbeing, the implications of Covid-19 for business and the economy have been severe. Many diversified farm businesses have suffered losses due to closures and the restrictions on the movement of people. Wedding venues, accommodation providers, visitor attractions, adventure parks and festivals are some of a long list of rural diversifications that were forced to shut, just as they were entering their busy season. In spite of this, many diversified businesses have been incredibly adaptable and resilient in embracing the "new normal". Throughout the year, we have heard inspirational stories about how they are reshaping their offer to keep businesses afloat and customers happy.

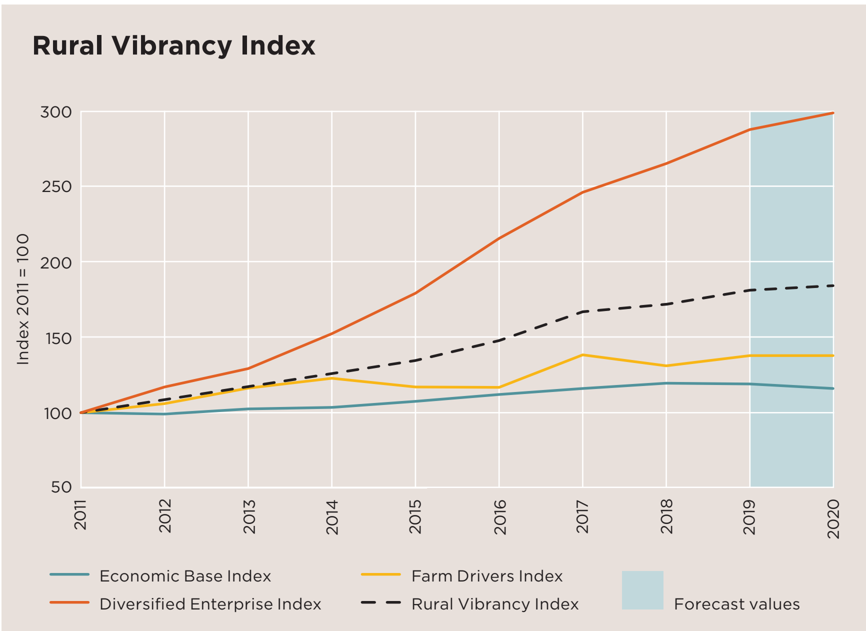
ON TRACK FOR GROWTH

The Rural Vibrancy Index 2019 showed strong annual growth of 5.5%, continuing a positive trend for the Index. Of the various elements that it tracks, diversified enterprises showed the strongest performance during the year (8.5%). The Rural Vibrancy Index also looks at indicators of the underlying performance of farm businesses. A rise in Total Income from Farming (Defra) in 2019 compared to the previous year, contributed to an annual growth of 5.1% in the Farm Drivers Index. The final element of the Rural Vibrancy Index is the Economic Base Index, which represents the strength of the underlying economy. In 2019 it acted as a drag on the overall Index, with a fall of -1%. A strong year overall.

LOOKING AHEAD...

2020 has been a uniquely disruptive year for the diversification sector, but our Rural Vibrancy Index forecast for this year is not all doom and gloom. We have taken into account the most recent data available in combination with insight on the other elements and predict an overall rise in the Rural Vibrancy Index for 2020 of 1.6%. An estimated decline of -2.2% in the Base Economic Index and a flat forecast for farming performance means that the positive result is entirely attributable to the continued strength of the Diversified Enterprise Index, albeit forecast to grow at its slowest rate (3.8%) since the Index began. Despite a difficult time for many, we predict that core elements of the Diversified Enterprise Index, such as British vineyards and renewable energy returns, will continue to show strong growth through 2020.

They say a crisis creates opportunity, and this year we have seen how the pandemic has accelerated pre-existing trends and new ideas. Reflecting on this, we highlight in the panel (right) how we think key elements of the Rural Vibrancy Index might perform into 2021.



Source Savills Research

The Savills Rural Vibrancy Index (RVI) tracks some of the key influences on farm diversification and aims to give a comparative indication of the strength of the sector over time. The index combines a wide range of indicators in three separate categories: farm business drivers, economic indicators and enterprise performance results. The vibrancy of the sector is represented as standardised values indexed relative to the year 2011 (2011=100).

> "As the march towards net zero gathers urgency and pace, renewables will increasingly be called upon to fulfil our insatiable need for energy"

2021 SHOULD BE AN UPBEAT YEAR FOR:

SHORTENING SUPPLY CHAINS
Home delivery offerings from local businesses have been a lifeline both to producers and consumers during lockdown. But consumers wanted assured provenance and convenience before 2020 and the trend will only accelerate in the future.

STAYCATIONS
The number of single day visitors to the countryside has declined from a peak in 2012, but it seems likely that the lack of overseas holiday options may compensate for this in 2021.

DISTILLERIES
The "Ginaissance" appears unstoppable. Smaller businesses have been better able to adapt to local, direct and online retail compared to larger businesses more exposed to the hospitality sector.

AND COULD BE A CHALLENGING YEAR FOR:

BREWERIES
We have seen relatively few new brewery openings in an industry that is vulnerable to restrictions on socialising and suffering from a lack of government support.

INCOME FROM FARMING
Uncertainty around the Brexit negotiations continues to weigh on the minds of the sector even though farmgate prices are buoyant, reflecting a change in consumer buying behaviour during lockdown.

OVERSEAS VISITORS
A weakening pound combined with constantly changing regulations around foreign travel will not be viewed favourably by overseas travellers. Major heritage attractions will continue to suffer from a lack of traveller confidence.

Source Savills Research, American Express, Deloitte, Pitchup, Kantar, Food Foundation, Hitched, Salop Leisure

> “As the first wines became available, markets have been established not only locally but across Europe and beyond”

CASE STUDY

Tillingham Wines

Nestled in the rolling hills and woodlands of East Sussex, Dew Farm enjoys far-reaching views down the Tillingham valley to the fortified town of Rye and beyond across Romney Marsh to the sea. The location prompted the landowner, Viscount Devonport, to research the farm’s suitability for growing vines. While undertaking this research he was introduced to wine maker Ben Walgate and they jointly formed Tillingham Wines Ltd. The first priority for the new venture, alongside planting the initial 10,000 vines back in 2018 – with a further 30,000 vines in 2019 – was to develop an on-site winery with sufficient equipment to make a range of interesting wines. The winery is certified organic and the wines are made using biodynamic techniques, including the use of qvevris (terracotta urns) imported from Georgia that are buried in the ground, which influences the flavour.

It takes three years for vines to mature so in order to improve cash flow while the vines grow, Ben has been making around 20 different wines using bought in grapes. He has produced some very successful reds, whites and rosés, including different styles of sparkling and orange wines.

As the first wines became available markets have been established not only locally, but across Europe and beyond. To promote the branding of this new vineyard and ensure that it stands out from the competition, particular effort has been made to emphasise the ethos of regenerative farming and low intervention wine making. In a thoroughly modern way, the business has relied heavily on Instagram to reach new markets.

DIVERSIFY THE DIVERSIFICATION

This attractive location, enhanced by the recent planting of its hillsides with vines, prompted the business to focus heavily on the opportunities provided by tourism in order to optimise potential returns.

Wine pairs naturally with serving locally-sourced food and so it seemed logical for the business to develop a small restaurant and wine bar with a bottle shop in the old farm buildings. The business plan also assumes that many customers will be drawn to the vineyard from a large catchment area so an 11-bedroom boutique hotel has been built to cater to those wishing to stay overnight, with vineyard tours forming part of the offer.

30,000

vines were planted in 2019, adding to the 10,000 planted in 2018

ADAPTABILITY AND RESILIENCE PAID OFF

The restrictions imposed by Covid-19 during the first summer season meant that nearly all the staff were furloughed, however the previous couple of years of building up a loyal following paid off with direct orders from customers. Once the restaurant re-opened, the airy space in the farmyard under an old Dutch barn was the ideal site for a few tables and a wood-fired pizza oven.

The land not suitable for vines continues to be grazed by sheep, cattle and chickens and a walled garden on the estate is used for growing vegetables. All of these enterprises are connected, providing produce for the restaurant.

The conversion of the farm buildings has been sensitively undertaken with minimal intervention, which has not only kept costs down but also ensured that there is a seamless link between the history of the buildings and their use today.

- *Tillingham.com*
- *Peasmarshplace.co.uk*

61% used supermarkets less during the period

50 deliveries a day made by Newton Farm Foods

69% increase in sales at smaller, independent stores

CASE STUDY Newton Farm Foods

Hugh and Celia Gay are the third generation to operate the mixed farming business at Newton St Loe, three miles west of Bath. They initially started marketing their own beef in 2000 after deciding to sell the dairy herd. Over time, direct meat sales grew and redundant farm buildings were used to create a farm shop and a café. In 2010 the family established Newton Farm Foods, selling their own beef, lamb and pork directly to the public.

The farm shop has proven extremely popular and has grown significantly over the last 10 years. With the support of an EU Leader grant, the business was able to extend the café in 2019 and can now serve 1,400 covers per week. Around 50 other local suppliers have also come to rely on the farm shop as an important outlet for their own produce. The family also use the new facilities to host supper evenings, craft workshops and wellbeing classes along with farm open days and seasonal celebrations.

DEMAND FOR LOCAL FOOD

Like many other businesses, Newton Farm Foods was heavily impacted by Covid-19. The lockdown meant that the café had to close overnight and the farm shop was restricted to reduced opening hours. In order to survive, the business has had to adapt. The family decided that if the public were no longer able to visit them, they would visit the public. In March the Gay's created a delivery service, initially for people over 70 and those shielding, before extending to others within a five mile radius of the shop. Using refrigerated vans, the business was able to make 50 deliveries a day to 250 households a week.

Demand for local food was not limited to Newton St Loe. One YouGov survey showed that 61% of people used supermarkets less during this period and a separate survey by Kantar suggests many turned to smaller, independent stores, which saw sales increase by 69%.

CREATIVE OPPORTUNITY

Lockdown also provided the perfect opportunity to realise an ambition to produce their own range of quality ready-to-eat meals. Their range now extends to eight mains, three desserts and three side dishes, all handmade in the café's kitchen using locally sourced produce. The ready-to-eat meals have fast become a customer favourite and the delivery service still operates twice a week, making essential deliveries to those shielding or vulnerable.

As lockdown measures eased, the café and farm shop returned to operating as normally as they could within the regulations. Always looking to grow, the business is now developing an online ordering system and is hosting a pick your own pumpkin enterprise developed by Hugh and Celia's son Josh, who now manages the day-to-day farming operation.

Covid-19 has shown that businesses must be able to adapt and diversify in order to maintain business continuity.

■ *Newtonfarmfoods.co.uk*

CASE STUDY Pylewell Park

Pylewell Park is located in the New Forest National Park on the south coast of England and is owned by Lord Teynham, who inherited the estate in 1988. Because the property was vacant and in need of repair, the trustees agreed that a commercially viable and sustainable use was needed for the house, gardens and parkland in order to contribute towards its restoration and ongoing maintenance. In 2015 Simon Foster of the Tourism, Leisure and Events team was instructed to assess the opportunities at Pylewell. The conclusions from the initial assessment highlighted an opportunity to create a significant weddings and events enterprise in a semi-permanent marquee in the gardens, complemented by guest accommodation in the numerous, but unrestored guest bedrooms in the house.

WEDDINGS AND STAYCATION MARKET

A feasibility study and a subsequent business plan were completed, which included projections on the likely number of events over a 10 year period and the return on investment. Savills helped the Pylewell management team secure planning consent, source key suppliers (including a state of the art semi-permanent marquee and external event caterers), and recruit a new marketing and events coordinator to manage the day-to-day business.

Two years later bookings have exceeded targets and, as part of a second phase, 10 bedrooms in the house have been refurbished for overnight guests. In addition, the development of the website and the effective use of social media have been crucial in attracting a high volume of enquiries.

In response to the changing restrictions caused by the pandemic, Pylewell has adapted its offering to create a "micro wedding" package that includes exclusive hire of the house for a weekend, with a small ceremony, dinner and overnight accommodation for family and close friends. As a result, a number of clients have happily adapted their wedding plans rather than cancel or postpone. This has ensured that cashflow has been better protected during this challenging time.

In addition, a penthouse flat has been turned into a holiday let to make the most of the flourishing staycation market and help cashflow in the short term. Looking forward, the estate is looking at other leisure opportunities, including outdoor events and third party glamping enterprises.

■ *Pylewellpark.com*

147m
Instagram posts with #holiday

191m
Instagram posts with #wedding

245m
Instagram posts with #foodporn

The rise of the ‘farmfluencer’

Communicating the value and reality of farming has become key

The growing disconnect between people and the food they eat is well known. Not understanding how milk is produced, which animal pork comes from, or when strawberries are in season is increasingly commonplace and signifies an urban society with a worrying lack of exposure to the rural world.

This disconnect is even more concerning at a time when the rural sector holds many of the solutions to the challenges society is currently confronting – the race to net zero emissions, the need to improve diets, enhance health and reverse the decline of nature. This, combined with the seismic policy shifts facing the sector, means that demystifying and communicating the value and reality of farming has become a priority.

CONNECT TO THE CONSUMER

Historically, farmers have been among the last people to jump on the self-publicising wagon. However, the growth of online platforms such as Instagram, Twitter, Facebook and TikTok mean farmers and farm workers can now share their stories on social media at the click of a button. Not only is it inherently Instagrammable – think photos of fluffy lambs or dramatic arable sunsets – but, more importantly, this growing online communication is pivotal in reconnecting the urban public with the lived reality of the rural world.

The concept of the farmfluencer, farming celebrities who have shot to fame through their online content, may sound unlikely to some, but the numbers speak for themselves. Instafarmers @redshepherdess (42K followers) and @bentheoandrews (40K followers) among many others make it their daily mission to share the dirt on what farming really entails. And it’s not just Instagram – famous Lake District sheep farmer James Rebanks sprung to fame on Twitter with his shepherding tweets. Two books down the line and he’s a trailblazer in communicating what farming means and the hurdles farmers face on a daily basis.

Lockdown has exaggerated society’s increasing demand for rural online content. Our new-found propensity for the virtual world has meant farmers have had to scale up their communication – LEAF’s annual Open Farm Sunday turned into Online Farm Sunday, while hashtags such as #backbritishfarming went viral. Covid-19 also resulted in a revival of interest in locally produced food and, once again, technology was an enabler, creating online platforms such as Farms to Feed Us, an open source website connecting consumers and local growers.

DEMAND FOR RURAL ONLINE CONTENT

We spoke to Amy Eggleston, aka @thedairydaughter, who returned home to work on her family dairy farm in Leicestershire. She set up her farm Instagram account (now with over 10k followers) to “show people what dairy farming really involves”. Amy’s past work experience combined with her love of the farm inspired her to start a rural communications business, offering advice to businesses on how to promote themselves. She has a variety of different clients in the agriculture sector who want to spread the word and often social media is a great place for them to start. She agrees that the pandemic has confirmed the importance of engaging with online platforms, and believes in the benefit that this can bring in educating people about food, nature and farming.

■ *@pasturesgreencommunications*

HOW TO SPREAD THE WORD EFFECTIVELY

We asked Amy for her top tips for rural businesses looking to diversify their communications:

■ Do something – anything is better than nothing, just set up a page, a website, even a newsletter email. Don’t be afraid to try it – it’s really not rocket science.

■ Engage with others, make Instagram friends – there is a really supportive community out there.

■ To increase your reach, make sure you have a variety of platforms for different audiences. For example, use Twitter for information on fertility rates, Instagram for pictures of cute calves.

The demand on the rural sector to scale up online communication may well be one silver lining of the pandemic. As farming continues to be put under the spotlight and undergo substantial change, the sector will need public support, which is a lot easier when everyone understands what farming means.

Key steps to diversification

1 **What does a good business plan look like?** It needs to be clear, well-structured and relevant to the project or business. A plan that is used to support a loan application for example should have a different focus to one that is targeted at equity.

Once the basic structure is in place, it is important to make sure:

■ *It is realistic* – and can be implemented in the real-world environment, rather than just looking good on paper.

■ *It is focused* – through setting targets, timeframes, action points, etc, all of which can be tracked and/ or measured. Set key performance indicators to assess ongoing performance.

■ *Define responsibilities* – part of which will include how the management team will be structured and the business resourced. Consider qualifications, licences, etc required, plus who is responsible for them.

■ *Justify assumptions* – and challenge yourself on how realistic they are.

■ *Consider the way you want to communicate the plan* – who will read it, how will it be incorporated into other aspects of the business management. Don’t get too lost in technical detail.

■ *If it’s for the purpose of raising funding, don’t just produce it for “the bank”* – and leave it in the bottom drawer once done. It should be referred back to, reviewed, revised as the business develops (and as targets are inevitably missed...).

> “A good business plan needs to be clear, well-structured and relevant to the project or business. A plan used to support a loan application for example should have a different focus to one that is targeted at equity”

2 What supporting evidence will I need? There is no set list to work to, but a good starting point includes:

- *Market analysis* – what does the current commercial landscape look like at the moment?
- *What's the competitive edge* – if it's a new product or service, how have you identified the gap in the market? If it's an additional or replacement product, what will compel your target customers to switch from their current provider? Analysis around Target Addressable Markets is useful here as a tool to define the potential opportunity and scale of the business.
- *Credentials* – management experience and track record.
- *Contracts* – or other evidence of support from potential customers, to demonstrate some form of commitment (key if looking for long- term funding).
- *Supply agreements* – from suppliers, where cost of sales are important to manage and preserve margins.

3 What are the options in terms of finance, loans, and remortgaging and where are the main sources of finance? Establish how the diversification will be structured with the existing business. If it is as a part of an established business, obtaining funding may be easier, but the lender will want to make sure the new enterprise won't be a drain (in cash terms and management time) on the existing business. Conversely, if it is set up as a separate business, don't necessarily expect the same terms – it's not the same business or legal entity, so you shouldn't expect it to be treated as such.

A start-up or diversification project will often fail to get bank support if the expectations for funding are unrealistic. It can be a challenge for those starting out, often with limited cash to invest, but consider external equity as a way to bridge this. (Yes, it means giving away some of the value in the business, but it could also mean bringing in some additional experience and business management skills.) Alternatively, providing security over other property via a re-mortgage can be a way to “de-risk” the proposal for a lender, as the value of the cash equity is effectively replaced by the security value.

Engaging the services of a professional advisor – a consultant, accountant, etc is advisable, as they will consider different business structures, efficient ways of investing, effective use of tax reliefs, as well as sources of capital, but the end position will invariably be a compromise between all of the above.

Banks are still the main source of funding, especially for more traditional purposes such as land purchase and investment in fixed assets, but specialist lenders are increasingly active in the market and may offer more bespoke funding structures, particularly for working capital solutions.

4 What are the common pay back periods? Generally, these are aligned with the useful life of the asset. In the case of property and buildings, up to 25 years is common, and for plant and machinery, typically three to seven years. It's important to differentiate between finance for fixed assets (ie. buildings, machinery, etc) and working capital – the lender will want to see how these different aspects of the business will be funded.

5 Will my loan be reviewed at any point? Generally, banks will hold a formal review at least once a year, but often more frequently where new diversifications are concerned as there is an increased risk with the lending. Lenders will often want to see an independent consultant's report, eg. to monitor performance against budget, and this may be carried out on a quarterly or even monthly basis. More formal monitoring via loan covenants is another means of assessing how a borrower is performing.

6 What about tenants who are aiming to diversify, how do they raise finance without security? A conversation with the landlord is a good starting point, especially where there will be an element of capital investment – it could ultimately serve to benefit the landlord as well, so they have an interest in the project. Debt is available, but equity or equity partners need to be a part of the capital structure and this is where a joint venture can play a part – they could be active, where the diversification benefits both parties, or silent, where the equity only, and possibly a limited element of management input is provided.

Lenders will want to see management teams with well-balanced skills and suitable experience. If this involves bringing in specialist operators, do your homework. Who are they? What is their history and track record? Can you obtain references? Are they individuals or part of a professional operator (such as is common in the hospitality sector)? Another option could be a franchise model, where the business benefits from an operating template and central franchise support that often includes a financial package

7 How should a landowner raise finance for a diversification project if they have little or no trading history? This can be difficult as track record and experience are important in an overall risk assessment, but areas of weakness can be mitigated by bringing in external parties.

Don't start off with unrealistic expectations. It might take longer to get to realise your long-term ambitions, but it is better to start out small and build up than risk everything on day one.

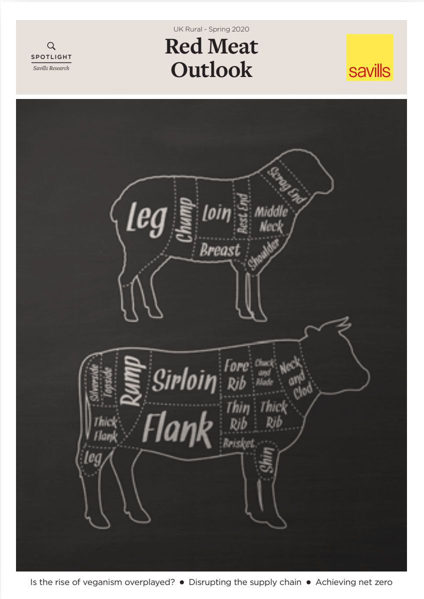
Explore different funding options, including grants that may be available in your region or targeted at specific areas or sectors, and be prepared to obtain funding from a number of different sources.

Ashley Lilley, Savills Food and Farming, spoke to Tom Windett of Ashbridge Partners about planning and funding a diversification.

- *ashbridgepartners.co.uk*

£740m

Total income from diversified activities in England alone



Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.

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