

ASPECTS OF TRADE

2023

INTRO

Welcome to the 2023 edition of Aspects of Trade.

It seems that no sooner has business met one set of challenges than another comes along. Stubbornly high inflation and the energy crisis – both donors to the current cost of living increases – are overlaying the lingering hangovers from Brexit and Covid which the UK economy is still weathering. This is providing owners/operators in the trade related sectors with a bumpy ride but within this there remain opportunities.

In this edition we include articles on education, horticulture, crematoria and rating, with a guest article from our new automotives team.

We hope you find something of interest.



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EDUCATION

THE FUTURE OF THE INDEPENDENT SCHOOL



Independent schools have come under enormous financial pressures in recent years. Brexit, Covid, rising interest rates and, more recently, the consequences of high inflation have not been the sector's friend.

Although most families have had to rationalise household spending of late, parents will often cut back in other areas before pulling their child from independent school, and for good reason.

Despite moves to shake up admissions to widen pupil demographic and intake, private schools still succeed in getting a disproportionate number of pupils into top universities.

How much!?

Private education is expensive. Fees have persistently risen beyond typical levels of inflation, so school fees will increase - often dramatically - during a child's school years.

Full fees often amount to sums well above the average UK annual income - and that's before optional extras. The Good Schools guide analysed independent day school fees and concluded a family whose child starts school (in reception) in 2022 at a school which prices itself at the UK average, will be committing themselves to circa £270,000 over the full period of their child's education to A levels.

Despite the cost, for those who have the means, private schooling remains the preferred option and there is still strong demand from UK and overseas families.

However, the question of affordability and value is more acute than ever and schools are having to review their strategies to ensure success and legacy.

What might further impact fees...

Tax breaks: The Labour party has renewed its call to strip schools of their charitable status, calling tax breaks "inexcusable". Without charitable status, fee-paying schools would no longer have to pursue charitable objectives or to act for public benefit; this could prompt schools to scale back the number of bursaries and scholarships and to maximise full fee-paying pupil places. It might also mean VAT would be payable on fees. The pressures that such a move could place on the public purse, let alone the legal and other repercussions may however lead to a diluted or long-phased transition.

Staff pensions: The increase in employer contributions to the Teachers' Pension Scheme (TPS) in September 2019 went from a cost of 16.4% of teachers' salaries to 23.4%.



There are expectations that the employer contribution rate will again rise significantly in 2024. Full details of how and when these changes will be implemented have still to be confirmed, but we do know the level of benefits will be higher than under the transitional arrangements and the associated cost is expected to be passed on to schools in the form of higher employer pension contributions.

Solutions?...

Schools will need to be proactive and innovative. Strong core values and leadership are required to monitor strategy and implementation. Establishments will need to measure Key Performance Indicators and carefully consider how any proposals sit alongside the core education purpose.

We have already seen schools specialise to narrow their offering, or adopt co-educational models, broadening their intake; and implement competitive pricing or structures (such as increasing day pupils) to boost numbers.

We have also seen families move away from London schools to provincial locations, and more intensive use of combining private and state-funded education.



Schools can also seek to diversify income. Some more traditional schools and sixth-form colleges also offer a very attractive 'heritage' setting for high-end events such as wedding ceremonies and receptions. Furthermore, one of the most exciting areas that has developed in recent years has been demand for filming and photography locations. This can provide a boost in finances without putting pressure on fees - although any opportunities cannot detract from pupil health and safety, safeguarding, and wellbeing.

Strategy might also include consolidation or collaboration with a syndicate group, or sale or transfer of excess assets.

What does this mean for fees?

It is inevitable that independent school fees will continue to come under scrutiny. This may have the knock-on effect of pushing some children into state funded education. But with strong strategy built on fundamentals, commercial forethought and delivery of exemplary education, independent schools will still be an attractive sector.



HORTICULTURE

GREEN SHOOTS

The past couple of years have been challenging for the horticultural nursery sector with significant increases in operational costs, issues with staff attraction and retention, and Brexit as well as changes in trading legislation.

Rising energy costs in particular have been a challenge as horticulture has not benefited from any kind of dedicated energy subsidy during the ongoing energy crisis.

As a result the competitive advantage for glasshouses now lies principally in energy solutions, modern climate control, automation and scale.

Larger size allows for economies of scale and purchasing power, especially of raw materials. The cost of achieving this physical scale for new builds has escalated over the last couple of years due to the inflation in the prices of steel and glass.

CambridgeHOK, a glasshouse build contractor, advised that glass and steel costs rose 10% to 20% in the first six months of 2022. Only now are build costs showing the early signs of stabilisation.

However, inflated build costs have made glasshouses built within the last say five years more appealing for those looking to enter the market or expand their production;

particularly those existing facilities which benefit from more advanced climate and environmental control systems, incorporating renewable energy such as Combined Heat and Power (CHP) plants. Buyers also prefer glasshouses with higher levels of automation which can reduce labour requirements, as well as result in higher volumes of crops. In glasshouses which are fully automated, the water, temperature, light, fertilisers and CO2 (where required) will all be computerised.

In recent months we have seen an increase in interest in British horticultural properties from Dutch growers as they have also been

suffering from high energy costs and the high-tech nature of Dutch horticulture has not extended to a reliance on renewable energy. Instead, Dutch glasshouses use around three billion cubic metres of gas a year, or about 8% of the national total. Added to this, Dutch companies growing non-edible plants see growing in the UK as a way to circumnavigate the peat bans that come into force at the end of 2026 which will make it harder for the Dutch to export to the UK.

Therefore, whilst it has been a difficult couple of years for the sector as energy and other operational costs start to show signs of decreasing,

there are some reasons to be cheerful, particularly for owners of modern glasshouses of scale with renewable energy sources and high levels of automation.

We are currently marketing a commercial glasshouse equipped with hydroponic growing system enhanced by LED lighting with ancillary accommodation. For further information please contact Ian Simpson 02074 098 060 isimpson@savills.com.

AUTOMOTIVE

NEW CAR SUPPLY IMPROVES EN ROUTE TO FULL RECOVERY



Savills welcomes the new Automotive Team who joined in January this year. The team have been operating in the automotive sector for over 30 years and provide all things property to the sector with a particular focus on car dealerships, covering agency, professional work, valuation and strategic advice.

Despite consumer spending being hampered by the cost of living crisis, the team have been kept busy by their clients over the last year as car mobility and usage remains a necessity for the general population. New car supply volume has been vastly improving on previous years with the Society of

Motor Manufacturers and Traders (SMMT) anticipating total new car registrations will grow 11.2% in 2023.

Battery Electric Vehicles (BEVs) demand has somewhat plateaued following sharp rises in previous months, nonetheless “plug-ins” accounted for almost a quarter of all deliveries in February this year with half a million BEVs Plug in Hybrid Electric Vehicles (PHEVs) forecasted to be in circulation on Britain’s roads by the end of 2023 (SMMT). The establishment of nationwide charging infrastructure will play a key role in the shift towards zero emission mobility – a field in which the automotive team also operate.

The market is also entering a transitional phase in the dealer and Original Equipment Manufacturer (OEM) vehicle sales process. An option for OEMs is to introduce an ‘agency model’ whereby the dealer no longer inherits the profit margin risk of purchasing the vehicle product from the OEM, rather the customer places the order directly with the OEM and the dealer is the conduit for delivery of the product to the consumer. This will have a significant impact on dealership property. The dealer will display fewer new cars, reducing showroom space, which could lead to opportunities such as multi-franchising under one roof. Ultimately this will

consolidate the dealer’s property holdings, presenting an opportunity to reposition their property and potentially unlock alternative use value on surplus space. We have seen a number of dealers’ balance sheets benefit from dealership sales for alternative uses such as care homes, data centres, convenience stores, self-storage and residential. Despite the potential consolidation which may come as a result of this model, the dealer will continue to maintain the relationship with the customer, benefiting from the traditionally profitable aftersales portion of revenue. The dealer remains the focal point of the sale and distribution process of the vehicle.

The majority of customers remain loyal to physical salesman evidenced by healthy franchised dealer balance sheets and over half all used cars being sold by franchised dealers (Car Dealer Magazine). “Online-only” sales model pioneers Cazoo, on the other hand, posted a £704M loss in 2022 as well as axing 15 out of 22 of the business’s customer handover centres.

Market consolidation remains a prominent theme with a number of acquisitions towards the end of 2022. Additionally, the OEMs continue the process of rationalisation of their dealer networks - most notably

super-group Stellantis announced widespread closures and a drawback of representation across its network unlocking a number of opportunities for brands and dealers looking to expand. Toyota, KIA, Nissan and MG have been particularly active in increasing representation following impressive vehicle sales statistics.

The Automotive team are excited to continue their specialist work within this sector adding to the depth of knowledge under the Savills banner.



CREMATORIA

THE COST OF DYING

Everyone is aware that the current inflation rate of 8.7% is still far higher than the Bank of England target of 2% and the economic pressure this puts businesses under. Whilst in many industries this has affected their profit margins, in the funeral sector there appears to be more flexibility for cost rises to be passed on to customers.

The Sun Life Cost of Dying report in 2022 reported falling funeral pricing compared to the previous year.

Surprising as this may seem in an era of generally rising costs, the principal reasons are likely to relate to the rise of the direct no frills cremation, the restrictions on numbers attending funerals during the pandemic, and Competition and Markets Authority Order requiring better price comparison for customers from September 2021 by open pricing and conditions, and prohibition of incentives paid to potential business suppliers.

We have analysed the statistics published on the Cremation Society website. These reveal that cremation fees increased substantially faster than RPI over the years between 2012 and 2020 but the last 2 years have seen them fall behind.

£	Average fee	Percentage increase of average fee	RPI
2012	584	7%	3.6%
2013	619	6%	3.4%
2014	652	5%	2.2%
2015	689	6%	0.3%
2016	720	4%	1.3%
2017	745	3%	4.1%
2018	783	5%	3.5%
2019	810	3%	2.8%
2020	837	3%	1.4%
2021	848	1%	4.0%
2022	894	5.4%	13.2%
Total		53%	40%



A direct cremation, the no frills, cheaper cremation option, formed around 18% of all cremations in 2022. According to Sun Life, the average cost of a direct cremation in the UK is circa £1,500 whereas a standard cremation funeral is approaching £3,700. Both cost around 2.5% less than the previous year but are still cheaper than a burial funeral at nearly £4,800 despite that falling by a similar annual percentage.

There is a growing interest in the environmental impact of every activity and the generation paying for funerals is actively looking for a low carbon approach. With more interest in the environmental footprint of business, this is an area

where the funeral market can look to improve and add value as both burials and cremations have their environmental challenges.

The origin and type of materials used for coffins, and memorials fall to be considered along with the emissions. Cremators in the UK are mainly fuelled by natural gas which we all know produces carbon emissions. Some electric cremators have been installed but these are slower and they are more costly to run and still relatively high users of carbon. There are also concerns regarding the gas released into the atmosphere upon cremation and recycling of waste, particularly metals and contaminants.

Burials, both natural and cemetery, are not without their own concerns. Whilst apparently having lower carbon emissions, there are concerns over the toxic chemicals used for embalming leaching into the soil and water table along with any drug residues.

Nevertheless, whilst the funerals industry has new challenges these are generally welcomed within the industry as a step in the right direction and should enable the bereaved to navigate a most difficult time with less concern over cost and environment.



AGENCY

ACCURATE AGENCY ADVICE IN A CHALLENGING ECONOMIC CLIMATE

One of the greatest challenges for an agent is achieving a balance between client's and purchaser's expectations on value. There is no doubt that current interest rate levels and a feeling of uncertainty in the economy generally will have an impact on a purchaser's appetite for new acquisitions. This is especially difficult to manage when we are coming out of a relatively strong, post-pandemic period of growth where premium prices were achievable in many sectors.

Seller aspirations on the value they are likely to achieve from the sale of their asset are often based on optimistic examples of the sale of similar assets, rarely acknowledging that market conditions have changed and the subsequent impact this may have on value. A purchaser on the other hand will typically base their opinion of value on current economic trends and the impact this may have on the business they are considering, in the short to medium term.

When establishing a suitable sale price for any asset, it is always worthwhile sense-checking this against an asset's value for secured lending purposes. The majority of assets that are purchased are done so with the assistance of some form of debt, so the agreed sale price has to broadly align with the value of the asset for secured lending purposes. Generally speaking; however, a valuation of a trading property for sale will place more

reliance on its potential to generate income in the future than a valuation for secured lending purposes, which is likely to apply greater emphasis on recent trading performance. As a result, a guide price for sale purposes will generally be more generous than a formal valuation for lending, accounts or similar.

The most significant variation between guide price and formal valuations occurs when there is an apparent change in economic conditions. In strong economic times, market confidence in the continuity of these conditions leads to purchasers and lenders having a greater appetite for risk and therefore a higher guide price may

be suitable. Where market conditions have demonstrably changed for the worse; however, a premium guide price may well discourage interest and thereby competition for the asset for sale. That said, a business generating secure, long term income will see less fluctuation in value compared to one which relies more on the sale and resale of goods or services to generate its income.

The nature of the asset being sold can also affect the level of guide price impact. If the asset being sold is likely to appeal to purchasers who already hold a portfolio of similar assets, then the confidence of both them and their funder in being able to realise

some form of value from the business development upside will be strong – competitive tension is more likely to arise, and increased expectations of achievable price, if the asset class is widely understood and forms part of multiple portfolios.

A prudent agent will always cross-check their advice regarding a suitable asking price for sale against that of a loan security valuer, as in most cases borrowing will be required which will be needed to support a good proportion of the purchase price.

BUSINESS RATES

THE PROBLEM(S) WITH BUSINESS RATES



Business rates is a tax on the occupation – or the right to occupy – commercial property. It's the oldest official form of taxation in the UK, dating back to 1601 and pre-dating income tax by almost 200 years. Yet it's never been less popular with taxpayers – and for good reason.

Every commercial property is given a rateable value by the Valuation Office Agency (VOA) or the Scottish Assessor. This is supposed to represent the open market rental value at a date set by Government, assuming the property is vacant and

available to be let on that date (even if it's not). Therein lies the 1st problem as any property professional will tell you that valuation is an art, not a science. The VOA has to value over 2 million properties each time there is a new revaluation – it's no wonder the quality of their artistic ability is so often questioned.

Once a rateable value has been set (usually 5 yearly but the last one was in 2017), government sets the annual multiplier to convert the rateable value into the amount payable to the Council.

This is where the 2nd problem lies. In 1990, the annual multiplier was 34.8p, or 34.8% of a rateable value. In 2023, it has risen to between 49.9p and 54.6p, depending on where a property is and how large it is. Clearly too much is being expected of the business rates system.

There is no right to contest the annual multiplier, but there is a right to appeal against the rateable value. This is where the 3rd problem arises in that the increase in 'ambulance chasing' rates advisors in the early 2000's led to a significant increase in appeals being made.

Over the course of the 2010 Rating List, almost 1.1m appeals were made – of which 70% were withdrawn or otherwise struck out. The appeal system was being abused and the VOA could not cope with the volume.

In came a new appeal system called 'Check, Challenge, Appeal' to save the day. By making the appeal system more complicated, the Government hoped to put many ratepayers off pursuing appeals, but it is now virtually impossible for an unrepresented ratepayer to navigate through, often leaving the ratepayer with no way to arrive at a fair level of rates to pay.

After each revaluation, there are always winners and losers – those who see their rateable values reduce, and others who see them increase. From 1st April 2023, the logistics sector has been the biggest 'loser' from a business rates perspective, with average rateable values for warehouses increasing by 27%. The retail sector saw an average 10% drop in rateable values.

The leisure sector has seen very mixed fortunes since the previous revaluation – rateable values for hotels are down on average by 30%, but caravan parks are up by 16%.

Pubs are down by 17%, but drive thru restaurants are up by 14%. Theme parks are down by 12%, but garden centres are up by 8%.

Many assessments will be correct, or at least reasonable. Many, however, will be wrong, whether too low or too high. This tax is at its least popular level, yet the need to obtain professional advice to deal with it is at its highest level.



ASPECTS OF TRADE

SAVILLS TRADE-RELATED SERVICES

WHO WE ARE AND WHAT WE DO

VALUATION, AGENCY AND PROFESSIONAL/ADVISORY WORK IN
THE FOLLOWING:

Leisure Property

- Golf
- Holiday Properties
- Caravan Parks
- Hotels & Resorts
- Licensed Premises
- Sports Venues
- Urban Leisure
- Visitor Attractions
- Water-based Leisure
- Equestrian

Trade-related Property

- Airports and Airfields
- Education including: schools, children's day nurseries, and universities
- Abattoirs and food processing
- Crematoria, graveyards and woodland burial sites
- Churches
- Nurseries and garden centres
- Mineral extraction/landfill
- Vineyards
- Waste Transfer and recycling centres
- Renewable Energy

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