Rural returns

New money in rural areas has the potential to bring major changes

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Investors from Donald Trump in Scotland to Moominworld in Finland are bringing both opportunities and conflicts to rural areas, according to RICS research. Fiona Mannix highlights the main findings.

The RICS research report *New money in rural areas* developed an impact evaluation framework focusing on local economies, communities and natural capital, which it applied in 10 case studies across Europe. The main concern was with how the benefits of new money invested in rural areas could be maximised, and how potential externalities could be mitigated.

New money in rural areas has the potential to bring change, and it can have many socio-economic and environmental impacts. Such money can take many forms, from private individuals undertaking single projects to institutional investors seeking sustained returns from farmland and farm products or establishing investment funds to list on international stock markets.

Some forms of investment generate new activity and cause new money to circulate in a local economy. Other forms of investment extract money and cause capital to circulate among investors but not locally. However, because the routes into rural assets range from the simplest to the extremely complex, any single framing runs the risk of excluding certain types of investment.

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Rural areas today play host to a broad range of opportunities and activities, and there is a strong market for many forms of rural consumption from farm products and renewable energy to leisure value. Investors have displayed growing interest in the returns they can realise from these.

Case studies

The case studies in the research indicate the direction of change, and highlights from 4 of these follow.

Viticulture in Italy

An established vineyard in Sardinia was acquired by 2 multinational companies using a direct and active investment approach. The initial investors were the Campari Group and more recently Holding Terra Moretti.

In assessing overall investment impacts, the research found that 15 years of ownership by multinationals have led to only modest changes at the vineyard. Nevertheless, as a once-local business has been absorbed into the structures of a multinational operation, employees? working conditions have generally improved, with increased rights and new career paths. A wine-tasting centre has been developed following the restoration and conversion of a number of buildings by the Campari Group. However, there has been little or no engagement with local communities on the development of the wine operations during at least the past 2 decades.

Dyson farmland investment in England

The purchase of land in Lincolnshire by Beeswax Dyson Farming Ltd at Nocton Heath, Nocton Middle and Nocton Fen used a direct and active, or own and operate, approach, and brought an historic estate under single ownership. It ended plans for a mega dairy of 8,000 cows on land close to Nocton village, which had been considered a serious pollution risk.

Arguably the most significant impact has been the reassembling of a previously fragmented estate and the consolidation of the operations. Good relations with nearby communities were helped by owner Sir James Dyson?s role in ending plans for the proposed mega dairy. Key economic and financial impacts include investment into new farm infrastructure. There has also been an array of measures to enhance and protect the local environment, including tree planting, hedgerow transplanting and the provision of bat and bird nest boxes. An environmental stewardship plan has also been developed to bring the estate up to higher-level standards.

Trump in Scotland

Donald Trump bought the 500ha Menie Estate in Aberdeenshire and created a high-end golfing resort and championship course. Before this, the estate had been used for farming and hunting, and covered an important dune system at Foveran, a Site of Special Scientific Interest (SSSI). The investment model is direct and active, and motivated primarily by the pursuit of land conversion for the development of a new sporting complex. Since initial planning approval in 2008, only a fraction of the proposed on-site development has been completed.

While the investment has created economic capital and an estimated 95?200 jobs, original plans have been scaled back and there has been a reduction in resort facilities and an increase in planned residential development, ostensibly aimed at recovering costs and increasing viability.

On the social side, the nature of engagement with both planning and communities was problematic, as the original application was turned down and that decision was then reversed by the Scottish government. It concluded that the environmental risks to the dunes and the SSSI were outweighed by the development?s potential contribution to regional economic growth, despite the fact that the investor had failed to make the case for the development locally and had alienated much of the community through engagement exercises. The SSSI is currently under review by Scottish Natural Heritage.

Moominworld in Finland

This is an example of a direct and active investment by 3 business ventures in the small seaside town of Naantali in south-western Finland. These developments were motivated by a commercial opportunity and built on the strong ethos and identity of creator Tove Jansson?s characters.

The biggest and most visible of these is the Moominworld theme park on the island of Kailo, which attracts more than 200,000 visitors annually. The park contributes directly and indirectly ? through the supply chain ? to the local economy. It has also generated 250 seasonal jobs.

The Moomins embody an aspect of Finnish culture that is rooted in the countryside and respectful of the forces of nature. The park can be viewed as the commodification of important cultural and environmental values that were distilled into the Moomin stories. Overall, the schemes? consistency with the key tenets of Jansson?s philosophy means that they have a low impact socially and environmentally, and are embedded in the local economy.

Three key messages

1. Where investors take a direct interest in an activity or area, there is a greater likelihood that their values will shape the local outcome. But direct investment is not automatically better than more passive forms, and much depends on the nature of the values that shape local outcomes. Also, much looser approaches to investing can create voids in which unscrupulous local actors are able to profit from investments that were intended, to some extent, to benefit communities and local economies.
2. The underlying values of investors have an important role to play in shaping community and environmental impacts. Different actors and investors have contrasting views as to the right balance between profit and local responsibility, often because their perspective on investment has either a long or short time horizon, or because they weight social goals more than economic ones or vice versa. The maintenance of local natural and cultural capitals tends to predicate the long-term success of a rural investment.
3. The level of investment does not necessarily correlate with impact in any simple way, and relatively small investments are having significant impacts through targeted valorisation of existing activities, diversification strategies and partnership working arrangements. Large companies acquiring farms, vineyards or other rural assets for instance may present local workforces with a variety of new opportunities ranging from training and upskilling to the opening of new career paths; the impact that these can have on rural economies or communities should not be underestimated.

Research recommendations

The research found many examples of good local relationships, built on trust between investors and communities, that are benefiting rural areas. Other examples, however, were characterised by growing mistrust and suspicion. In some cases, investment activities were being imposed on communities and there was little sense of embeddedness.

There is a general risk of investors pursuing short-term financial interests in ways that adversely affect nearby communities and environments, and more could be done by national governments to reduce the risk of bad behaviour by encouraging good practice through the setting of clear environmental, social and governance (ESG) standards.

Greater consideration of such standards as a prerequisite for funding and planning permission would have prevented some of the worst cases of local conflict identified in the research. The question is whether to trust local outcomes purely to investors? goodwill or develop a framework in which good behaviour ? and building strong local relationships ? is the only way to achieve good returns from rural investments.

These case studies suggest rural investments should be assessed using an ESG framework to help ensure the myriad benefits are maximised. There is also growing market recognition that assessing ESG factors makes financial sense, as risks and opportunities with a material impact on returns to clients and beneficiaries are being considered.

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Further information

- New money in rural areas is available on rics.org
- The lead researcher on the report was Nick Gallent, Professor of Housing and Planning, Bartlett School of Planning, UCL
- The co-researcher was Dr Meri Juntti, Programme Leader, MA Global Governance and Public Policy, Middlesex University
- Related competencies include Development appraisals , Investment management (including fund and portfolio management)
- This feature is taken from RICS Land Journal (July/August 2018)
- Related categories: Rural planning ; Vineyards