

English Farmland Market Review | Summer 2016

The market at a glance

Supply

The volume of farmland placed on the market grew in Q2 after a slow start to the year.

However, over a quarter less farmland has been marketed during the first half of 2016, compared with the same period in 2015.

Demand

Over 50% less farmland has been sold compared with the first half of 2015, with demand very location specific.

For the immediate future, demand from lifestyle buyers and investors is expected to strengthen as farmer demand weakens in most areas.

Pricing

Arable prices fell 1% in Q2 2016 compared with Q1 2016 and are now 9% lower than a year ago. Values are back at the same levels as at early 2015.

Pasture prices rose 2% in Q2 2016 but are 5% lower than they were a year ago. They have been fairly flat or stable since mid-2015.

Market overview

The UK's decision to take a step back from Europe and the Common Agricultural Policy will inevitably have implications for both the short and long term direction of the farmland market.

Markets like certainty and the agricultural industry is now facing uncertainty as to the general direction of a UK-only agricultural policy and more specifically the future level of subsidies.

There had been warnings that a vote to leave the EU could result in significant drops in land values, but we always felt these risks were overstated. The value of farmland has never directly related to its earning capacity and there are many reasons why land remains an attractive purchase for a range of buyers.

Since the result was announced, we have not seen a farm or land deal fall through due to the Brexit vote and indeed we continue to see interest for the farms and farmland on the market.

However, until we have greater clarity about the future of farm support some farmer buyers will lack the confidence to invest, which is likely to lead to price adjustments. Inevitably, there will be people who want to take stock of what Brexit will mean for them and their business and pause before committing to a purchase.

Our expectation is that the amount of land entering the market for the remainder of 2016 is also likely to be restricted as farm businesses decide what is right for them.

But early indications are that the weakening of sterling and wider economic concerns could also see non-farmers looking at land as a safe haven, compared with other investments.

In the short term, the market is likely to become even more polarised with values likely to be extremely variable, dependent on location and the number of buyers in the local market. We do not envisage any huge drops in values, although it is likely that farms in areas less desirable to lifestyle and rollover buyers could become harder to sell and will need to be well-priced.

Over the longer term, we believe the fundamentals which have driven long-term growth in farmland values remain unchanged. The UK has a growing population which needs to be fed, the list of competing demands for farmland grows and there is only a finite amount of farmland in the first place.

The market is facing a period of change, but it will offer opportunities as well as challenges.

Supply

Amount of farmland marketed

The area marketed in the first half of 2016 was 26% lower than in the first half of 2015, with 41,900 acres for sale compared with 56,500 acres. It was down in most regions apart from Yorkshire and the Humber, the West Midlands and the East of England, which was also the region with the most land for sale.

Table 1: Amount of farmland marketed (acres)

	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorks & Humber	England
2011	23,600	21,000	4,500	5,900	12,200	15,900	10,800	7,000	100,900
2012	10,100	16,400	16,200	4,500	14,200	14,200	6,500	5,000	87,000
2013	11,500	13,400	9,100	2,600	12,800	17,500	9,600	6,600	83,000
2014	6,500	15,900	4,600	3,600	11,900	14,400	12,000	5,500	74,300
2015	18,600	21,800	4,500	55,600	22,300	13,600	5,700	4,800	146,900
1H2015	9,900	12,400	4,500	5,000	15,000	5,800	2,000	1,900	56,500
1H2016	5,300	13,200	2,300	1,100	4,800	4,900	2,800	7,500	41,900

Note: Figures have been rounded to the nearest 100 acres.

Number of farms marketed

The number of farms marketed has also fallen by around a quarter compared with the first half of 2015 (112 compared with 149).

Table 2: Number of farms marketed in the first half of the year

	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorks & Humber	England
H1 2011	34	27	6	9	30	31	19	15	171
H1 2012	14	31	14	15	24	29	13	12	152
H1 2013	13	21	9	4	30	24	16	10	127
H1 2014	5	18	3	5	11	18	9	3	72
H1 2015	20	38	6	10	34	23	11	7	149
H1 2016	16	29	5	6	14	20	11	11	112

Analysis by farm type, shows the number of arable farms on the market has dropped by a quarter and livestock, hill and mixed farms by over 40%. There were more dairy farms for sale (14 compared with seven in the first half of 2015), which reflects the tougher financial environment for the sector.

Figure 1: Number of farms marketed in the first half of 2016 by region, by farm type, by farm size



Table 3: Main type of farms marketed in the first half of the year

	Arable	Estate	Livestock	Mixed	Residential
2011	60	5	10	22	38
2012	43	7	18	19	33
2013	48	3	11	15	33
2014	31	4	7	10	8
2015	82	4	14	17	25
2016	59	5	6	11	20

For buyers seeking to purchase a larger farm, only six farms over 1,000 acres were marketed, fewer than the nine marketed in 2015, so opportunities are restricted. The small numbers show the challenge of finding the right farm or estate in the right location for buyers. There is little evidence of more smaller farms being marketed – the overall trend is for less land to be marketed of all sizes.

Demand

Area of farmland exchanged

There are emerging signs of a market that has slowed down.

Of the 41,900 acres marketed so far this year, less than 15,000 acres is either sold or under offer, which is a much smaller proportion than was the case in previous years.

Over the ten years prior to 2015, over 80% of the land marketed was sold. In 2015, this figure dropped to below 50%. Note: This covers Q1, Q2 and Q3 only as some land marketed in Q4 2015 may not have been on the market long enough yet.

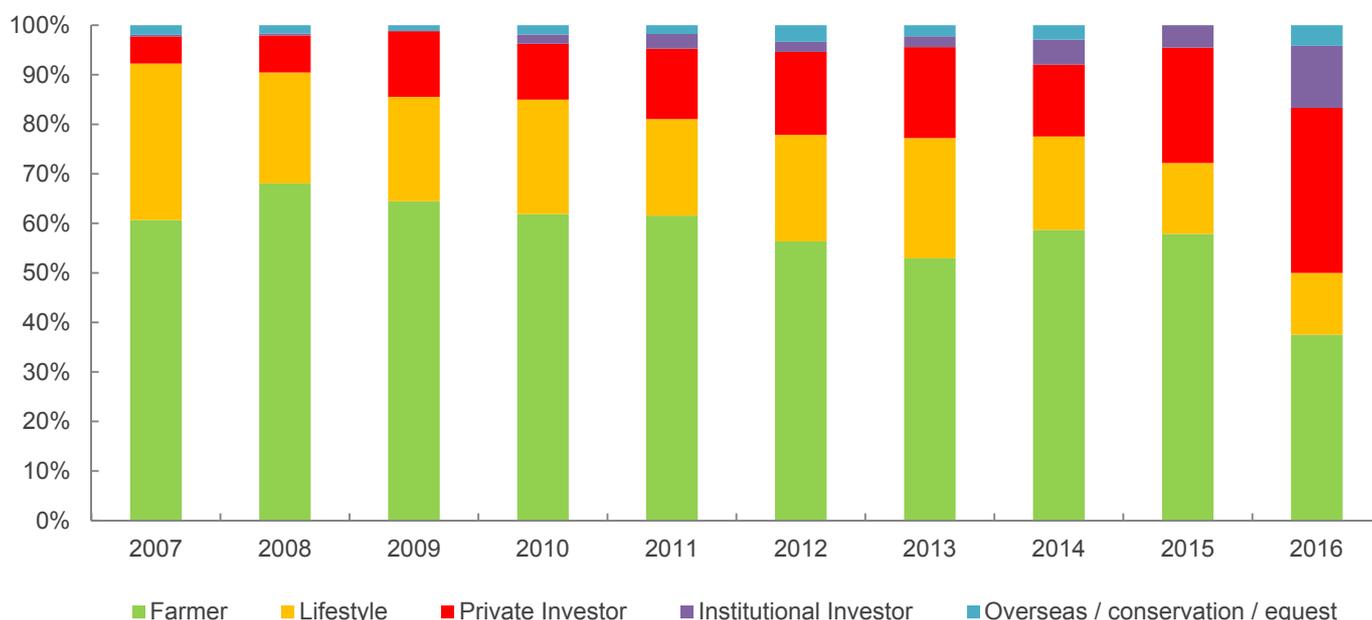
Type of buyers

There has been a significant change in who is buying land over the past two years, mainly as a consequence of the drop-off in farm profitability due to lower commodity prices.

Private investors and people looking to roll-over capital gains have become more active – buying a quarter of the land sold in 2015 and a third in 2016 to date. They have mainly bought farms under 500 acres in the southern half of England.

Farmers have only bought 38% of the land sold in 2016 to date, with the main reason for buying remaining expansion, whether onto neighbouring land or further afield.

Chart 1: Purchaser type



Overall, there are fewer active buyers and demand is very location specific. In some locations which do not appeal to investors or lifestyle buyers, and where neighbouring farmers are not looking to expand, land has been struggling to sell, particularly when fully priced.

The farms most in demand are ones that have been well maintained, equipped and farmed, as they are a 'more certain buy'. Demand is strongest, in all of the regions, for top-of-the-class arable farms and for farms in a good location that suits residential buyers.

Pricing

Arable prices fell 1% in Q2 of 2016 compared with Q1 of 2016, and are 9% lower than a year ago. They are currently back at the same levels as at early 2015.

Pasture prices rose 2% in Q2 of 2016 but are 5% lower than they were a year ago. They have been fairly flat or stable since mid-2015.

Table 4: Average sale price of arable and pasture farm land

		Arable (average, £/acre)	% change to Q2 2016	Pasture (average, £/acre)	% change to Q2 2016
2013	Q1	£8,000		£6,300	
	Q2	£8,400	16%	£6,700	13%
	Q3	£9,200		£6,300	
	Q4	£8,800		£6,700	
2014	Q1	£8,700		£7,000	
	Q2	£9,200	6%	£6,600	14%
	Q3	£10,300		£7,200	
	Q4	£10,400		£7,200	
2015	Q1	£9,500		£6,600	
	Q2	£10,700	-9%	£7,900	-5%
	Q3	£10,200		£7,400	
	Q4	£9,800		£7,900	
2016	Q1	£9,800	-1%	£7,400	2%
	Q2	£9,700		£7,500	

However, the range of prices being paid for farm is getting larger, which means average prices should be treated with care.

For example, although the average value of arable farm land in England in 2016 is £9,700 – 9,800/acre, the lowest price paid is £7,250/acre and the highest £14,750/acre, so over double the lowest. This range is caused by differences in land quality but also by demand, which can be very localised. Competition between buyers can mean that similar land sells for very different prices, which makes market knowledge even more valuable than usual.

Chart 2: Average, lowest and highest sale prices of arable farm land

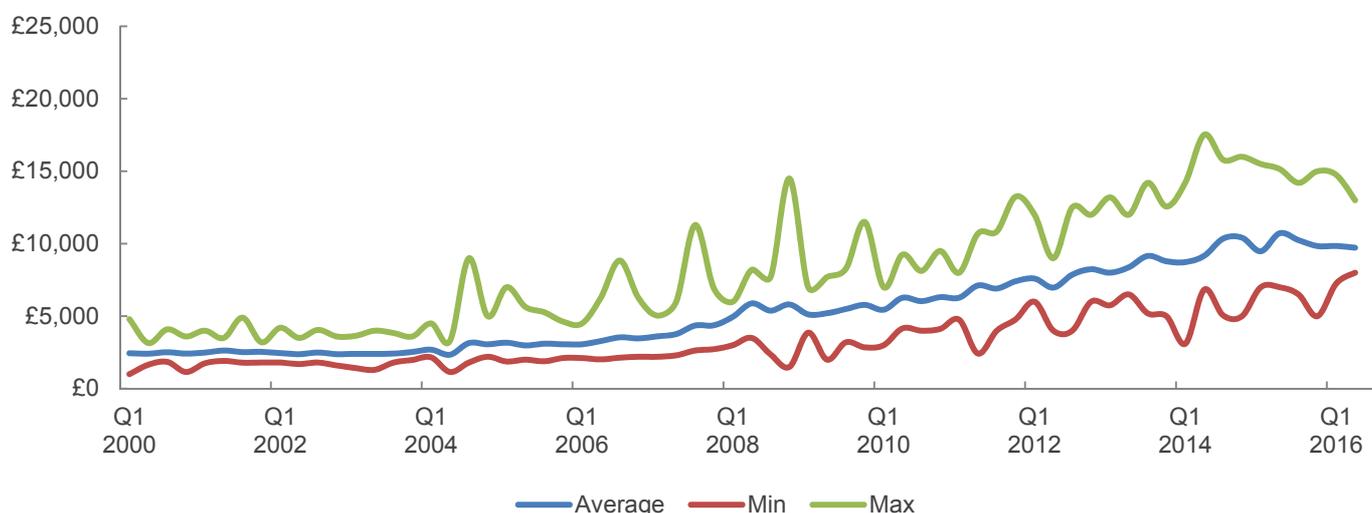


Chart 3: Average, lowest and highest sale prices of pasture farm land

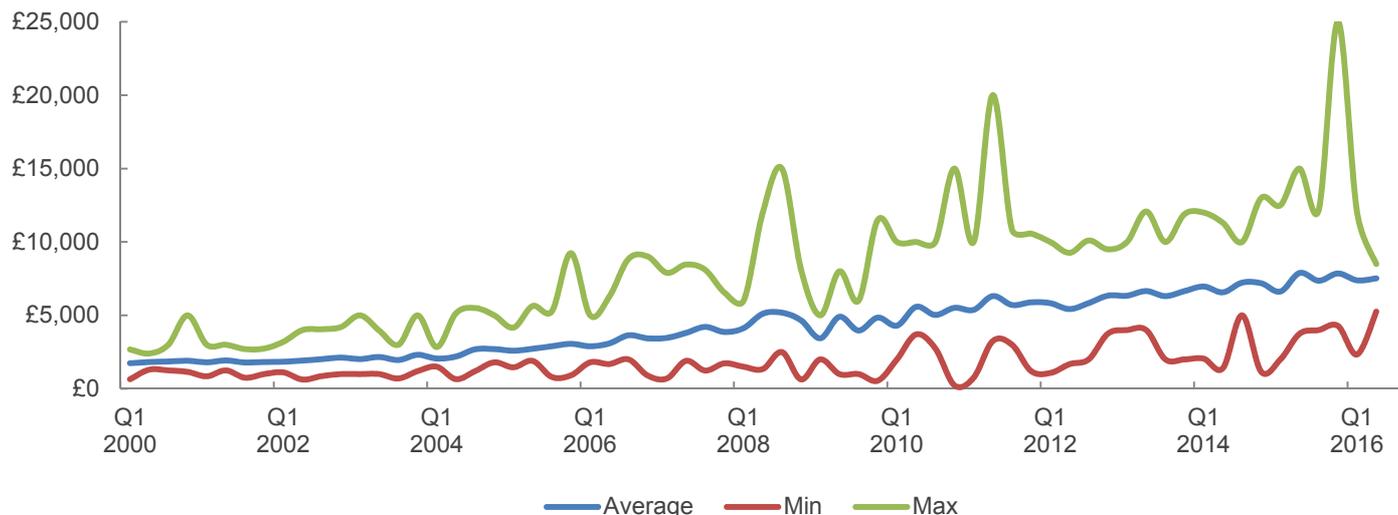


Table 5 highlights the extent of the range in prices by region. The range is growing, as the price at the bottom end has fallen in most regions while the price at the top has continued to rise, and in some regions is not far from being double that of the lowest price land.

Table 5: Average, bottom and top prices for arable land by region

	Q2 2016			% change since Q1 2016		
	Bottom 25%	Average	Top 25%	Bottom 25%	Average	Top 25%
South East	£8,500	£10,500	£13,000	-6%	-5%	8%
South West	£8,500	£10,500	£13,000	-6%	0%	18%
East of England	£8,000	£9,000	£10,000	-6%	-5%	-5%
East Midlands	£8,000	£9,000	£10,000	0%	3%	3%
West Midlands	£7,900	£9,000	£11,000	-1%	0%	10%
North	£6,500	£8,500	£12,000	8%	-1%	9%

Table 6: Average, bottom and top prices for pasture land by region

	Q2 2016			% change since Q1 2016		
	Bottom 25%	Average	Top 25%	Bottom 25%	Average	Top 25%
South East	£5,000	£8,500	£11,000	0%	0%	0%
South West	£6,500	£8,000	£9,500	-13%	0%	6%
East of England	n/a	n/a	n/a	n/a	n/a	n/a
East Midlands	n/a	n/a	n/a	n/a	n/a	n/a
West Midlands	£7,000	£8,000	£10,000	-1%	0%	3%
North	£3,500	£5,000	£6,250	-13%	-17%	-11%

Note: The prices are based on opinions of our regional agents as it is not possible to calculate reliable regional figures based on the small number of sales in each region over each quarter. The bottom 25% means if 100 farms were valued, the price of the 25th from the bottom. The average is the 50th from the bottom (and 50th from the top).

Farmland as an investment

Returns from farmland falls as capital values increase more slowly

The total return from farmland held as an investment fell to 5.5% in 2015, which is below its ten-year average of 11.3% a year, according to the latest data from the MSCI IPD UK Annual Rural Property Index. Capital growth halved due to weaker sentiment linked to lower commodity prices and income return continued to fall, which is a long-term trend.

However, over the past 20 years, rural property has produced over a 10% annualised total return at lower risk than all other core asset classes (measured as volatility in the total returns). Farmland also has excellent hedging characteristics against market downturn in more volatile assets.

Table 7: Returns from farmland compared with other asset classes over 1, 3, 5, 10 and 20 year periods

	2015 (%)				2014 Total Return (%)	Annualised total return (% pa)			
	Income Return	Capital Growth	Total Return	Gross Rent Passing Growth		3 years	5 years	10 years	20 years
UK rural property	1.3	4.1	5.5	4.0	10.4	9.3	10.6	11.3	11.4
UK forestry	-0.5 ¹	11.3	10.8	-	18.6	14.7	19.0	18.4	9.7
UK commercial property	4.8	8.0	13.1	3.0	17.8	13.8	10.5	5.7	9.2
UK residential market lets	2.6	4.4	7.1	5.5	13.1	11.6	11.1	9.2	12.6
Equities	n/a	n/a	-2.2	n/a	-	5.2	4.8	4.7	6.0
Bonds	n/a	n/a	1.0	n/a	-	2.3	5.4	5.6	6.6
Retail Price Index	n/a	n/a	1.2	n/a	1.6	2.9	2.7	3.0	2.8

Sources: MSCI (all property classes), JP Morgan (equities and bonds)

¹ The income return for forestry is negative due to lack of regular/contracted income. However capital receipts from timber sales amounted to 4.0% of mid-year capital value in 2015.

Market outlook

We have worked with independent economic consultants Volterra to produce forecasts for how farmland prices might change in the next five years. The forecasts are based on Auto-Regressive Integrated Moving Average (ARIMA) models of the market since 1997. We then adjust the forecasts with Volterra based on our experience and expectations.

We forecast little change in prices in 2016 despite the continuing pressure on farm profitability due to low commodity prices and of course the uncertainty due to Brexit. We have seen increasing demand for farmland from private and institutional investors. Lifestyle buyers have remained interested in farmland as a home and investment. We expect this demand to support prices and contribute to 5% increases in prices from 2018 onwards.

Table 8: Forecast percentage change in English farmland prices for next five years

	2016	2017	2018	2019	2020	5 Years
Central	0%	2%	5%	5%	4.5%	18%
High	5%	7%	6%	5.5%	5%	32%
Low	-4%	0%	4%	4%	4%	8%

There are also a number of dynamics at play in the market at the moment. Well before the vote to leave the EU, the farmland market had started polarising – with some land still in strong demand and but other blocks struggling to sell and prices under pressure. The market will continue to be characterised by being very dependent on local demand.

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Methodology

The data in this market report is from Strutt & Parker's Farmland Database of private and publicly marketed farmland over 100 acres in England. 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 farm exchanged contracts for) as well as guide prices, and so is a more accurate reflection of actual market conditions as guide prices can over- or under-state the prices that buyers are willing to pay.

The national prices stated in this report are based on sold prices. The prices for the regions are based on the opinions of our regional agents as it is not possible to calculate reliable regional figures based on the small number of sales in each region.

The Strutt & Parker Farmland Forecast Model was developed jointly with Volterra, an independent economic consultancy.

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