

Scottish Farmland Market Review | Spring 2017



Market overview

The Scottish farmland market was affected by a wide variety of factors in 2016, from delays in the receipt of government subsidies by farmers, continued pressure on commodity prices, tighter lending criteria, the possibility of a second independence vote and, of course, the result of the EU referendum.

However, despite the challenges facing the farming industry, prices remained reasonably resilient and more than two-thirds of the land put on the market found a buyer, with the majority selling at or above its asking price.

Continued overleaf.

The market at a glance

Supply

20% more land was marketed in 2016 than 2015, with the number of farms available for sale also increasing by 25%.

More farms came to the market in the 100-500 acre size bracket than in the previous year.

Supply of prime arable land (grade 2) remained restricted.

Retirement continues to be the key driver for sellers.

Demand

Around 70% of the farmland offered for sale in 2016 found a buyer.

Existing farmers remain the major buyer of farmland as they seek to increase the number and quality of acres they own.

There is strongest demand for prime arable land and equipped farms in excess of 300 acres.

Buyers are placing a greater focus on the combined attributes of the farm, over and above the bare land value.



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Pricing

Localised demand is creating large variations in land values. However, land in Scotland remains good value compared with elsewhere.

Most arable land sold for £4,000 - £8,000/acre, with less than 10% selling for more than £8,000/acre.

Most pasture land sold for £2,000 - £4,000/acre.

64% of farms sold at or above the asking price.

Market overview

Continued from page 1

The referendum did cause a number of sellers to refrain from entering the market and it is possible there will be a rise in supply during 2017 as a consequence of this. However, there was no evidence of deals falling through due to the 'leave' vote, suggesting that buyers continue to see farmland as a secure, long-term investment.

An emerging trend during 2016 was the level of attention that buyers are now paying to each and every one of a farm's attributes, whereas previously they tended to focus on the quality of the land. With greater pressure on farm profits, and more stringent lending criteria now in play, buyers are showing a preference for farms which do not require substantial capital investment and offer them the greatest flexibility.

Factors such as the age and condition of fixed equipment, excluded properties situated within the boundaries of the farm, quality of access, the exclusion of Basic Payment Entitlements and the standard of the farmhouse all played a significant part in prices offered during 2016. As a result, the bare land value of two adjoining farms can differ significantly.

Looking forward, the market is expected to continue in much the same way in 2017, with localised demand creating large variations in land values throughout the country.

Supply

Amount of farmland marketed

Over 40,000 acres were marketed in 2016, 20% more than during 2015 and well above the five-year average. This is despite less land being marketed in the last quarter of the year.

There were particularly large increases in Central Scotland, North East Scotland and West Scotland. In contrast, the Highlands and Islands and the Scottish Borders saw a significant decrease in supply.

The EU referendum caused a slowdown in the market, with many sellers holding off from marketing their farm until the result was announced.

Table 1
Amount of farmland marketed (acres)

N.B. Figures are rounded to the nearest 100 acres.

	Highlands and Islands	Lothian	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2012	2,100	400	6,500	3,400	4,000	5,400	6,000	27,900
2013	5,200	100	4,900	3,600	11,200	4,900	3,600	33,500
2014	5,100	1,700	4,900	3,700	1,300	3,400	3,100	23,300
2015	4,400	1,600	7,500	8,200	6,500	5,200	1,100	34,500
2016	1,100	3,300	11,200	11,300	3,600	6,800	3,900	41,100

Number of farms marketed

In line with the increase in the amount of farmland marketed, the number of farms for sale also increased – by 25% nationally.

Central Scotland, North East Scotland and South West Scotland were the most active regions in terms of volume.

Table 2
Number of farms marketed

	Highlands and Islands	Lothian	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2012	4	2	21	12	6	13	9	67
2013	9	1	13	9	8	15	8	63
2014	10	5	18	10	4	14	10	71
2015	10	6	26	24	8	12	6	92
2016	5	5	34	35	7	18	11	115



Retirement continues to be the key driver for farmers deciding to sell.

Types of farm

There were more farms for sale of all types during 2016, with the exception of dairy farms. The fall in milk prices means only those fully committed to a sale were prepared to test the market.

There was a significant rise in the number of hill farms put up for sale, with owners taking advantage of continued interest in land with potential for forestry.

Arable and mixed units also saw a marked increase in supply. However, the majority of the arable acres offered for sale were secondary arable, with a limited supply of prime arable acres brought to the market.

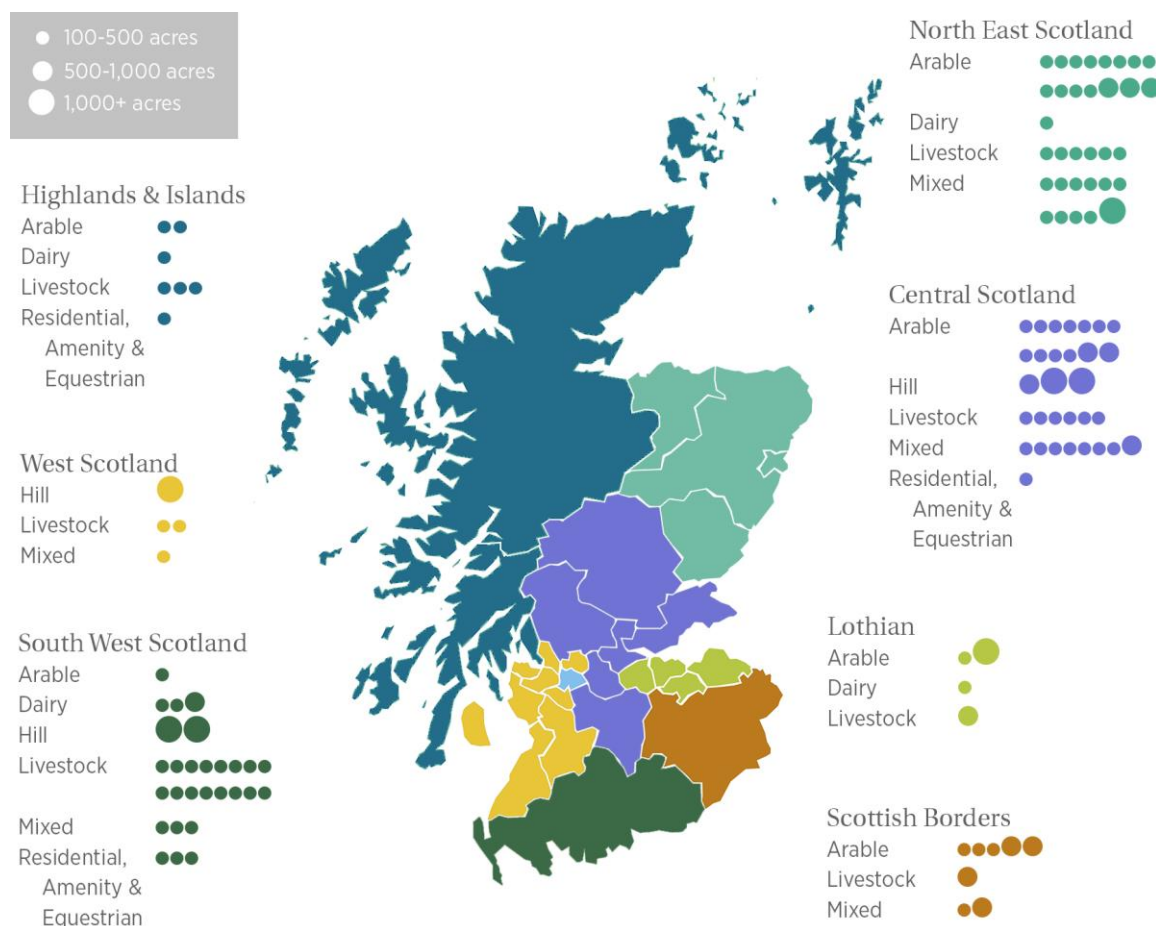
Table 3
Main type of farms marketed

	Amenity	Arable	Dairy	Hill	Livestock	Mixed	Residential
2012		17	3	7	26	14	
2013	1	20	3	8	20	10	
2014	2	19	7	2	31	8	
2015	3	30	8	1	33	15	1
2016	3	38	6	6	35	25	2

Size of farm

Seven farms over 1,000 acres were marketed during the year, compared with three in 2015. These were mainly hill farms. There were also more 100 to 500 acre farms for sale - 95 compared with 75 in 2015 - but a fall in the number of 500 to 1,000 acre farms - 13 compared with 19.

Figure 1
Number of farms marketed in 2016 by region, farm type and farm size



Demand

Area of farmland sold

Around 70% of the land marketed in 2016 had concluded missives or was under offer by the end of the year.

All types of farms continue to be placed under offer, on average, within a six to ten week period, if they are attractively priced. Farms with an over-inflated asking price are taking longer to sell, with a larger proportion of unsold farms than in recent years carried over into 2017.

However, over half of the deals agreed remained in the hands of solicitors at the end of 2016. This indicates that the legal process is becoming more drawn out. It is clear that banks' lending criteria have become more stringent causing an increase in the length of time between the acceptance of an offer in principle and concluding legal missives.

Only around 24% or 9,400 acres remained available on the market at the end of 2016, most of which was in North East Scotland, Central Scotland, The Scottish Borders and South East Scotland.

The proportion of land withdrawn was low compared with the last five years, another indication of demand in the market and a commitment from vendors to sell.

Chart 1

Number of farms marketed in 2016, by farm type and sale status

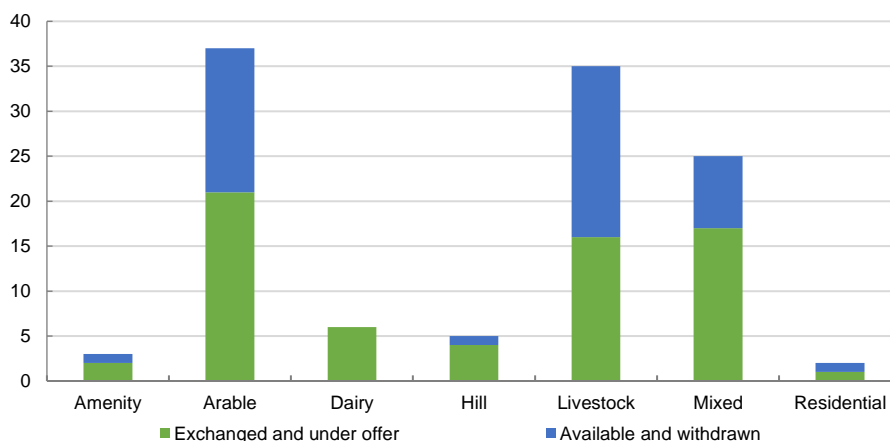


Table 4

Speed of land transactions – % of farmland sold (exchanged)

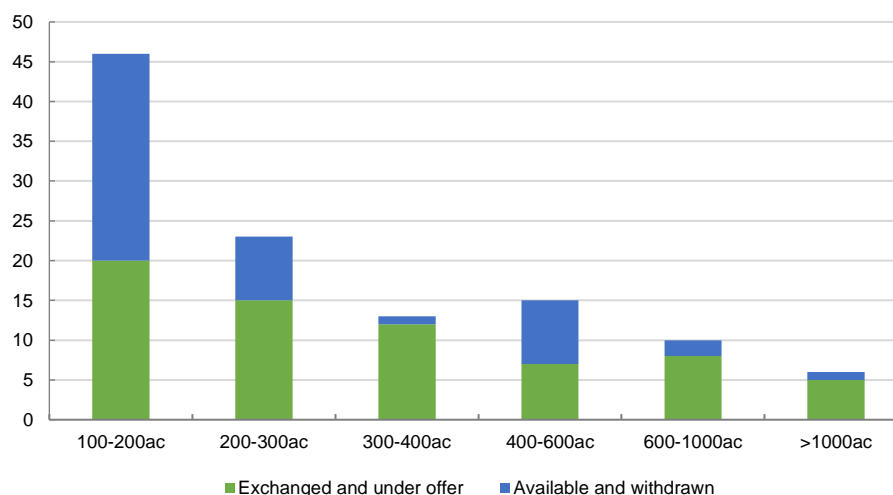
N.B. Data shows the sale status by percent of acres, not number of sales.

Sale status	2012	2013	2014	2015	2016
Available	4%	0%	5%	10%	24%
Exchanged	73%	85%	78%	56%	14%
Under Offer	2%	0%	5%	23%	55%
Withdrawn	21%	15%	12%	11%	8%

Chart 2

Number of farms marketed in 2016, by farm size and sale status

There was a clear demand for larger farms of all types in 2016, with 70% of those over 300 acres sold in comparison to 43% of those under 300 acres. The greatest success lay in 300- to 400-acre farms with 84% finding buyers – indicating that this size bracket offers the appropriate balance between viability and affordability.



Type of buyers

Existing farmers remain the biggest buyer of farmland, buying over 80% of farms sold over the last five years.

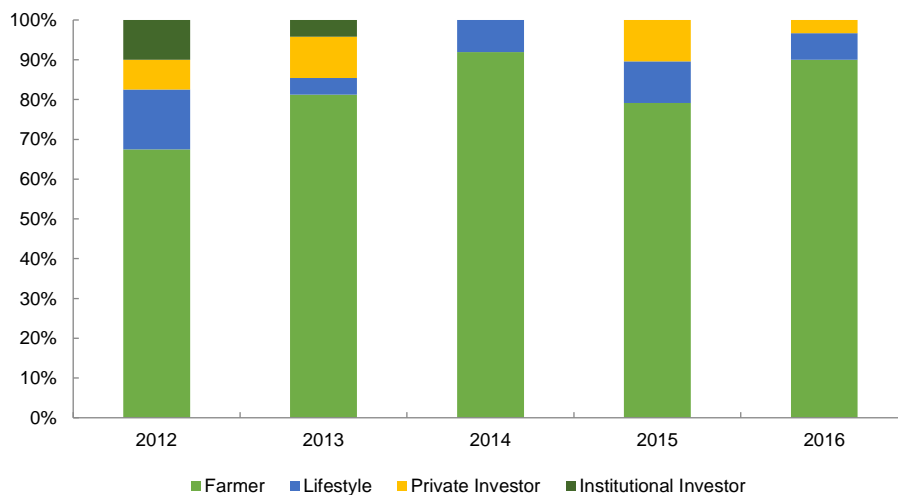
Land has traditionally been cheaper in Scotland than in England, Ireland and Wales, so has historically attracted interest from outside the country. This continues to be the case. However, average arable values in Scotland have risen at a faster rate than elsewhere and the gap has become less pronounced, resulting in demand from elsewhere softening.

The same does not apply to Scottish pasture, where average values are still sufficiently low to ensure that viable, well-equipped stock farms remain appealing to non-Scottish buyers.

Chart 3

Buyer type

N.B. Data is by number of sales, not acres. The year is when the farmland was sold (exchanged) and is for entire years.



The most active buyers were farmers (from Scotland and the rest of the UK) wishing to expand their existing business, with an emphasis on buying better quality land in a more favourable climate.

While all types of farmland are attractive to investors due to the tax benefits of farm ownership, this buyer-type tends to focus on allocating funds to arable rather than pasture land.

As the figures in chart 4 show, arable land has, over many years, shown consistent growth in value and so is seen as a safe and secure asset. In addition, it is regarded as simpler for investors to set up a Contract Farming Agreement for an arable unit than for a livestock farm.



Average arable values in Scotland have risen at a faster rate than elsewhere

Pricing

Average, lowest and highest sale prices

There is a large variation in Scottish farmland values due to localised demand, with the highest prices often more than double the lowest.

The average price of arable farmland in 2016 was £5,400/acre and the average price of pasture sold in 2016 was £2,800, which represents an overall reduction from the previous year.

The reduction in average arable values was mainly due to the very limited quantity of prime (grade 2) arable acres offered for sale, when compared with previous years.

A very small proportion of Scotland's total land mass is classified as arable – circa 10% based on Scottish Government figures, although this sector accounts for about 30% of the total output from farming in Scotland. In addition, according to the James Hutton Institute, the area of arable land in cultivation in Scotland has declined by between 12% and 15% since 1980.

Owners of farms which are made up of prime arable land have a tendency to retain them for a long period of time (there is little reason to sell the farm as it cannot be bettered), resulting in sales of these types of farms being very restricted from year to year.

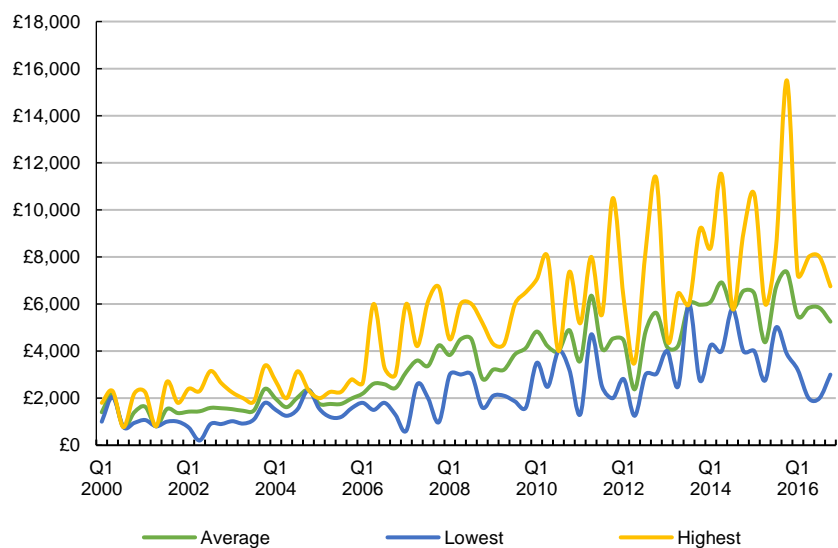
Given its scarcity and the flexibility prime arable land offers a business, (because it can be used for a variety of different enterprises it helps to spread risk), buyers are prepared to pay strong prices when it does come to the market.

Charts 4 and 5

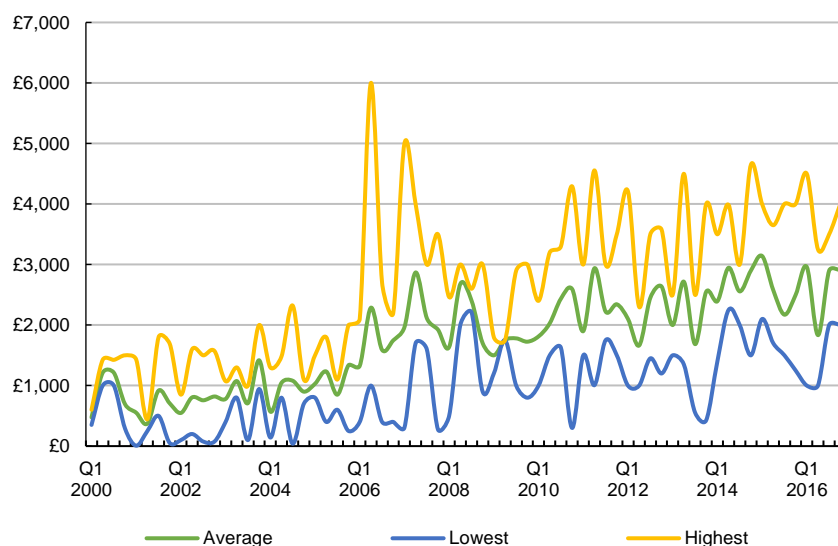
Average, lowest and highest sale prices of arable and pasture farmland (£/acre)

N.B. Data is based on sold (exchanged) prices. Charts have different scales on their vertical-axes.

Arable



Pasture



“

The average price of arable farmland in 2016 was £5,400/acre and pasture £2,800/acre

Sale price bands

In 2016, most arable land sold for between £4,000 - £8,000/acre, with less than 10% selling for more than £8,000, which is a smaller proportion than in the last five years.

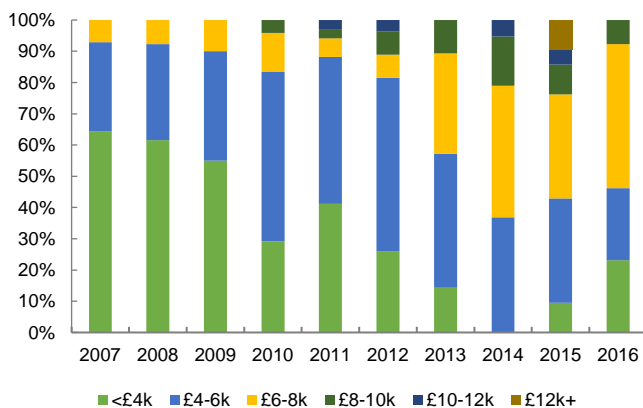
Most pasture land sold for £2,000 - £4,000/acre, with prices occasionally exceeding £4,000/acre.

Charts 6 and 7

Agreed sale price of arable and pasture farmland, by price band (£/acre)

N.B. Data is based on sold (exchanged) prices for vacant arable and pasture land only (i.e. it excludes the value of houses or buildings).

Arable



Pasture

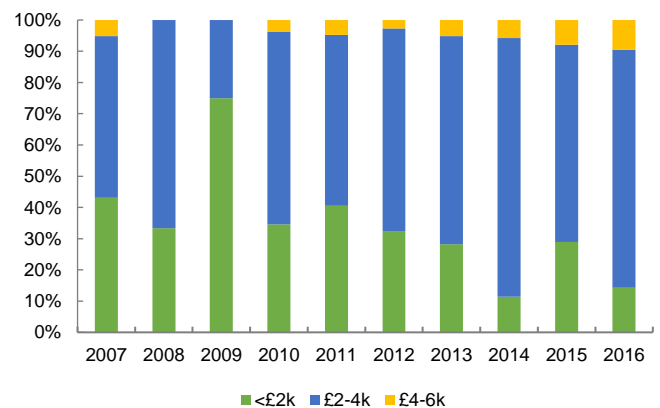
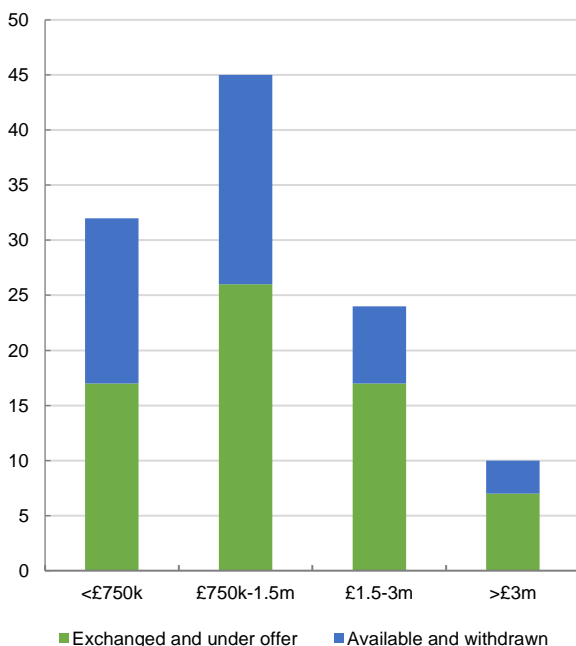


Chart 8

Number of farms marketed in 2016 by asking price bands and sale status

N.B. Chart includes all farm types



Sales at or above guide price

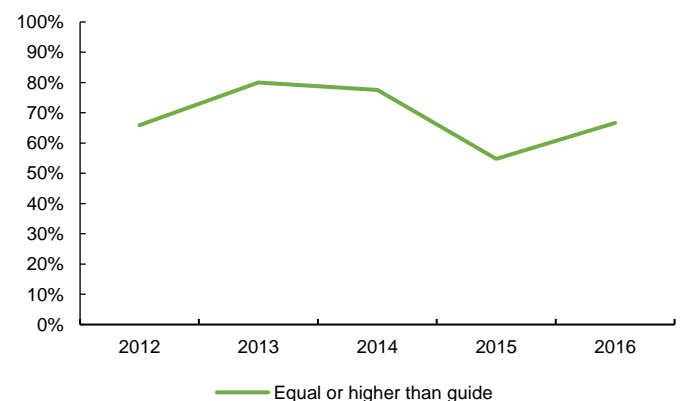
In contrast to England, where a greater proportion of land than normal remained available at the end of 2016, in Scotland the majority of land marked was sold.

Land is also selling reasonably well, with 64% of farms selling at or above their asking price, although this proportion is falling over time.

Chart 9

% of sales at or above guide price

N.B. Data shows the proportion of farmland sold for more or equal to its asking price. Year is when the farmland was marketed and is for entire years.



Prices around the regions

Table 5

Estimates of average, bottom 25% and top 25% prices for arable and pasture farmland by region

Data is based on the opinions of our regional agents, as it is not possible to calculate reliable regional values based on the small number of sales in each region. Prices are for vacant arable and pasture land only (i.e. it excludes the value of houses or buildings). Bottom 25% means if 100 farms were valued, the price of the 25th farm from the bottom. The average is the 50th from the bottom (and 50th from the top).

Q4 2016	Arable			Pasture		
	Bottom 25%	Average	Top 25%	Bottom 25%	Average	Top 25%
Highlands and Islands	2,750	4,000	6,000	1,750	2,250	2,750
Lothians	5,500	7,250	9,000	2,750	3,750	4,500
Central Scotland	5,000	6,500	8,000	2,500	3,250	4,250
North East Scotland	4,000	6,250	8,500	2,000	3,000	4,000
Scottish Borders	4,500	6,000	7,750	2,000	2,750	3,750
South West Scotland	4,250	5,000	5,750	2,250	2,750	3,500
West Scotland	3,750	4,500	5,250	2,000	2,250	3,250

Market outlook

The future for every farmer involves a large degree of uncertainty at the moment, with UK farm debt hitting a record high and volatile commodity prices. This will cause some farmers who are presently considering selling to sit tight and watch how the market plays out before committing to a sale. On the other hand, it will encourage others to sell up and leave the industry without delay.

While there is no evidence of a substantial rise in supply at the moment, a large increase will affect land values, particularly given there is also no indication of the number of active buyers increasing – instead, they are becoming more cautious and price sensitive, especially those (the majority) who are relying on bank funding.

During 2016 the Scottish farmland market was affected by a variety of events including the decision to leave the EU, delays in government subsidy payments, pressure on commodity prices, the potential for a second Scottish referendum and tighter lending criteria. Notwithstanding these challenges, however, prices remained reasonably resilient.

The same factors are all likely to continue to influence the market, but we do not anticipate a substantial change in land values unless there are dramatic developments in any of these areas. This is particularly the case for Scotland's best-in-class farms, of which the number offered for sale each year can be counted on one hand.

While there continues to be uncertainty in the marketplace price sensitivity is likely to become greater.



We do not anticipate a substantial change in land values, particularly for best-in-class farms

Methodology

All data in this market report is from Strutt & Parker's Farmland Database of privately and publicly marketed farmland 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 farm concluded missives 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. The national prices stated in this report are based on sold prices. Once a farm is exchanged, we have assumed it is sold, following HMRC custom. 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. This data is for farms only and excludes estates, which are covered in our Scottish Estate Market Review.

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