

English Estates & Farmland Market Review

Summer 2017



FOR SALE
Higher Melcombe Estate, Dorset
539 acres | £8.75 million

Market overview

The past 12 months have been a time of unprecedented political and economic uncertainty, thanks to the Brexit vote and a snap general election. However, despite this, land prices have held up remarkably well.

Based on the transactions in our Farmland Database, the average price of arable farmland sold in Q2 of 2017 was £8,400/acre. At first glance, this looks significantly lower than the Q1 average of £9,500/acre. However, if three high value sales at £15,000/acre are excluded due to their exceptional circumstances, the adjusted Q1 average is £8,400/acre, the same as we now see.

It seems values have found a new level, after the gradual decline of the past two years, with prices now ranging from £7,200/acre to £9,975/acre.

Continued overleaf.

The market at a glance

Supply

47,800 acres have been marketed to date in 2017, which is very similar to the same period in 2016.

However, there has been a drop in the number of farms marketed, particularly in the East of England.

The fall in the number of farms is down to fewer 100–500 acre farms for sale. There has been a rise in the proportion of 500 acre+ farms on the market.

Demand

Farms are generally taking longer to sell and demand remains extremely dependent on location.

Almost three quarters of the land for sale in 2016 has now exchanged or is under offer.

Lifestyle buyers and private investors, including those with roll-over money, are securing an increasing proportion of land, with just 50% being sold to farmers.

Pricing

The price of land remains wide, with the average for arable land at £8,400/acre but sold prices ranging from £7,200/acre to £9,975/acre.

The proportion selling for more than £10,000/acre has fallen significantly, from around half the sales in 2014 and 2015 to around a quarter now.

Pasture prices remained stable at an average sale price of £7,700/acre, with a range from £5,800 to £8,975 per acre.



Michael Fiddes

Head of Estates & Farm Agency

T: 01223 459 505

E: michael.fiddes@struttandparker.com

Market overview

Continued from page 1

The year started slowly in terms of supply, but more land has come to the market in Q2 and levels are around the five-year average. At this point, there are no indications that the amount of land coming onto the market will accelerate this autumn. While Brexit has caused uncertainty, farmers seem to have been reassured by the promise that subsidies will continue until at least 2022 and the rise in commodity prices, which is a direct result of the fall in the value of sterling.

In terms of demand, some farms are going under offer quickly following competitive bidding, while others are attracting much lower levels of interest. Some of the larger blocks of ground are selling particularly quickly. One factor is more activity in the market from buyers looking to roll-over windfall funds from the sale of residential development land.

Finally, although the data points to a significant fall in the proportion of land selling for more than £10,000/acre, compared to 2014/15, it is unlikely that we've seen an end to premium prices.

While farmers are certainly less willing to pay a premium to secure land, non-farmers still are for the right property. There have been fewer large residential farms and estates marketed so far this year and we still expect them to sell for a premium price.

The money is out there for the right farm or estate, but demand remains highly localised.

Supply

Amount of farmland marketed

Just under 50,000 acres was marketed in the first half of 2017, a similar amount as in 2016 and around the five-year average, so there has not been a significant change in the supply of land.

More land than normal was marketed in the West Midlands, largely due to the sale of the 4,200 acre Herefordshire County Council portfolio, but there has been a reduction in the East of England.

Table 1
Amount of farmland marketed in England (acres)

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

| | East Mids | East of England | North East | North West | South East | South West | West Mids | Yorks & Humber | England |
|---------------|-----------|-----------------|------------|------------|------------|------------|-----------|----------------|---------|
| 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 | 2,400 | 11,400 | 14,400 | 12,200 | 5,500 | 72,800 |
| 2015 | 19,000 | 21,800 | 4,900 | 9,600 | 21,700 | 13,600 | 6,100 | 4,500 | 101,100 |
| 2016 | 13,500 | 18,900 | 4,100 | 4,000 | 20,000 | 14,700 | 4,700 | 10,500 | 90,400 |
| Q1 and 2 2015 | 11,000 | 12,400 | 4,500 | 6,900 | 14,100 | 5,800 | 2,200 | 1,900 | 58,800 |
| Q1 and 2 2016 | 7,500 | 13,500 | 2,500 | 1,100 | 5,900 | 6,200 | 3,400 | 6,600 | 46,700 |
| Q1 and 2 2017 | 7,500 | 8,600 | 200 | 3,400 | 5,300 | 8,600 | 8,600 | 5,500 | 47,800 |

Number of farms marketed

Fewer farms have been marketed, despite the amount of farmland for sale being similar to last year. The biggest fall is in the East of England, although it still remains one of the most active regions and the region with the most arable land for sale (with 5,600 acres marketed this year).

Table 2
Number of farms marketed

| | East Mids | East of England | North East | North West | South East | South West | West Mids | Yorks & Humber | England |
|---------------|-----------|-----------------|------------|------------|------------|------------|-----------|----------------|---------|
| 2012 | 32 | 57 | 21 | 19 | 38 | 44 | 22 | 18 | 251 |
| 2013 | 28 | 36 | 13 | 11 | 45 | 42 | 33 | 20 | 228 |
| 2014 | 27 | 51 | 9 | 10 | 27 | 42 | 35 | 10 | 211 |
| 2015 | 43 | 59 | 7 | 19 | 55 | 40 | 28 | 17 | 268 |
| 2016 | 35 | 54 | 11 | 12 | 40 | 44 | 20 | 22 | 238 |
| Q1 and 2 2015 | 23 | 38 | 6 | 11 | 34 | 23 | 12 | 7 | 154 |
| Q1 and 2 2016 | 20 | 31 | 6 | 6 | 18 | 24 | 15 | 11 | 131 |
| Q1 and 2 2017 | 19 | 22 | 1 | 12 | 19 | 19 | 15 | 11 | 118 |

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Just under 50,000 acres was marketed in the first half of 2017.

Types of farm

There have been fewer arable and residential farms for sale, about the same number of estates and livestock farms, and more mixed farms.

Size of farm

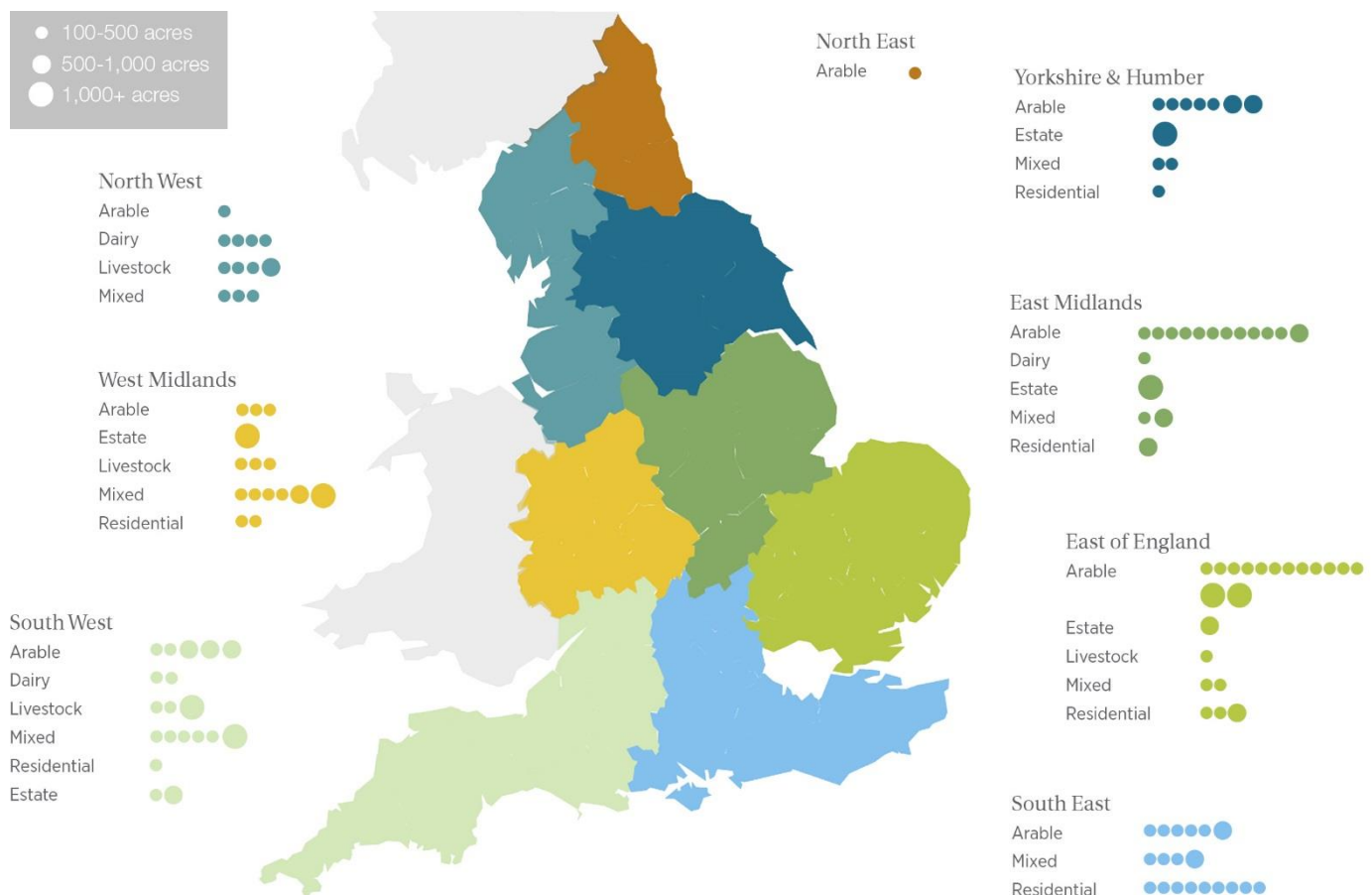
Most farms for sale are under 500 acres (94 of 118 marketed), but there has been fewer of these smaller farms marketed than in 2016. There have also been 17 farms between 500–1,000 acres for sale, which is about average, and seven farms and estates over 1,000 acres, compared with six in 2016 and ten in 2015.

Table 3
Main type of farms marketed

| | Arable | Estate | Livestock | Mixed | Residential |
|---------------|--------|--------|-----------|-------|-------------|
| 2012 | 78 | 13 | 30 | 26 | 51 |
| 2013 | 84 | 9 | 24 | 34 | 57 |
| 2014 | 84 | 21 | 24 | 34 | 30 |
| 2015 | 144 | 9 | 24 | 31 | 46 |
| 2016 | 115 | 11 | 21 | 29 | 39 |
| Q1 and 2 2015 | 85 | 7 | 14 | 17 | 25 |
| Q1 and 2 2016 | 65 | 6 | 7 | 18 | 22 |
| Q1 and 2 2017 | 49 | 6 | 11 | 25 | 15 |

Figure 1

Number of farms marketed in Q1 and Q2 2017 by region, farm type and farm size



Demand

Area of farmland sold

About 15% of the land marketed in 2017 is under offer or sold, with the rest still available. However, at the time of writing, there is significant activity in the market, so we expect the amount of land sold or under offer to be much higher by Q3.

Sales continue to be agreed for land marketed in 2016 with 73% now exchanged or under offer. The challenge to sell some of the farms – due to their location, being less attractive or issues on them – is illustrated by 27% of the land marketed in 2016 remaining available or withdrawn from the market.

All but one of the large farms marketed in 2016 have sold, but a third of the 100-500 acre farms (67 farms) are still available or have been withdrawn.

Over 40% of livestock farms and residential / amenity / equestrian farms marketed remain unsold – a much higher proportion than for arable farms (29%), mixed farms (28%), dairy farms (22%) or estates (18%).

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About 15% of the land marketed in 2017 is under offer or sold, with the rest still available.

Table 4

Speed of land transactions – % of farmland sold

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

| Sale Status | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Q1 and 2 2017 |
|-------------|------|------|------|------|------|------|------|------|---------------|
| Available | 0% | 3% | 1% | 2% | 2% | 8% | 9% | 17% | 85% |
| Sold | 88% | 76% | 76% | 85% | 89% | 80% | 71% | 59% | 4% |
| Under Offer | 0% | 0% | 0% | 0% | 1% | 0% | 2% | 14% | 11% |
| Withdrawn | 12% | 21% | 23% | 13% | 8% | 12% | 18% | 10% | 0% |

Type of buyers

Lifestyle buyers and private investors continue to play a larger role, buying just under half of the land sold so far in 2017. A significant proportion of these buyers are using roll-over relief from selling other assets.

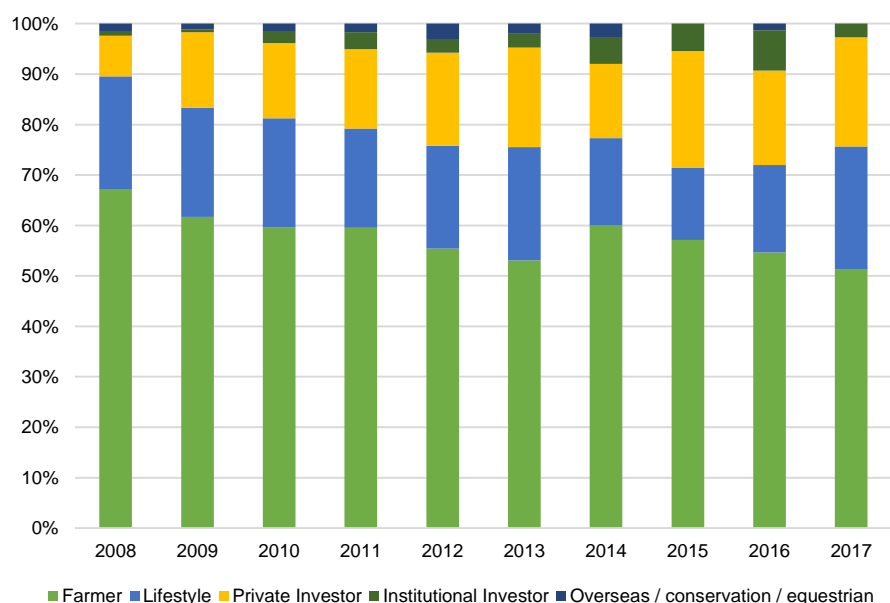
Farmers bought 51%, the lowest proportion in our records. This is a long-term trend which we expect to continue as farming profits remain under pressure, but farms remain viewed by outside investors as safe assets to store wealth.

The uncertainty caused by Brexit has made farmers more circumspect and less willing to pay premium prices. However, farmers are still interested in buying, if it is at the right price. Despite concerns over the future of agricultural policy, some farmers have been reassured by promises that subsidies will continue until at least 2022 and the weakening of sterling has also pushed up commodity prices.

Chart 1

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 apart from 2017, which is Q1 and Q2 only.



Pricing

The average price of arable land sold in Q2 2017 was £8,400/acre. This is 12% lower than the average in Q1, although this was inflated by three exceptional sales around £15,000/acre. Excluding them, the Q1 adjusted average is £8,400/acre, the same as this quarter, which suggests that prices have been largely stable in the year to date, which is supported by our agent's experiences.

Pasture prices remained stable at an average sale price of £7,700/acre, with a range of £5,800 to £8,975/acre.

N.B. These averages are based on the arable and pasture land that is sold during a quarter. Although we have stripped out the value of buildings and houses, the data can still be affected by differences in the quality and location of the land sold. Therefore, it should only be used as a broad indicator of changes in prices. Given the significant regional variation in prices and range of prices within regions, we recommend using the average, bottom 25% and top 25% prices for farmland by region, which are on the following pages.

Average, lowest and highest sale prices

The difference between the highest and lowest prices for arable and pasture has narrowed but can still be 100%.

Table 5

Average sale price of arable and pasture farmland (£/acre)

N.B. Data is based on sold (also called exchanged) prices.

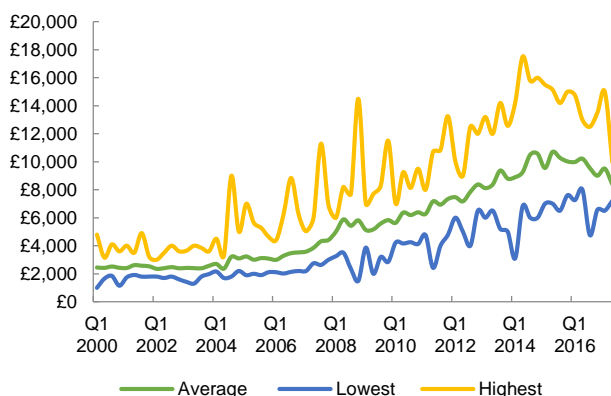
| | Arable | Change from Q4 2016 | Pasture | Change from Q4 2016 |
|----------------|---------|---------------------|---------|---------------------|
| 2013 Q1 | £8,100 | 3% | £6,700 | 15% |
| Q2 | £8,400 | | £6,800 | |
| Q3 | £9,400 | | £6,400 | |
| Q4 | £8,800 | | £6,700 | |
| 2014 Q1 | £8,900 | -6% | £6,900 | 11% |
| Q2 | £9,200 | | £6,800 | |
| Q3 | £10,500 | | £7,200 | |
| Q4 | £10,600 | | £7,100 | |
| 2015 Q1 | £9,500 | -12% | £6,800 | 12% |
| Q2 | £10,700 | | £7,800 | |
| Q3 | £10,300 | | £7,400 | |
| Q4 | £10,000 | | £7,300 | |
| 2016 Q1 | £10,000 | -16% | £7,600 | 0% |
| Q2 | £10,200 | | £7,900 | |
| Q3 | £9,500 | | £7,300 | |
| Q4 | £9,000 | | £7,200 | |
| 2017 Q1 | £9,500 | -12% | £7,600 | 0% |
| Q2 | £8,400 | | £7,700 | |

Charts 2 and 3

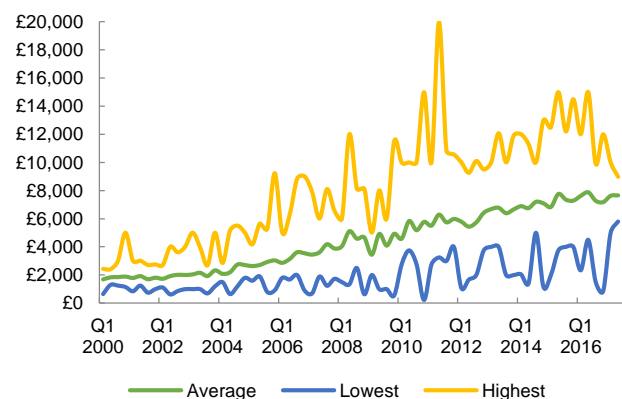
Average, lowest and highest sale prices of arable and pasture farmland (£/acre)

N.B. Data is based on sold (exchanged) prices.

Arable



Pasture



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The average price of arable land sold in Q2 2017 was £8,400/acre.

Sale price bands

The range of prices being paid is illustrated by looking at sale price bands. Most of the land sold in the £8,000-£10,000/acre price bracket, with the majority at the lower end of this range. Almost a third of the arable land sold so far in 2017 was for £6,000-£8,000 per acre. The proportion selling for more than £10,000/acre has fallen significantly, from around half the sales in 2014 and 2015 to around a quarter now.

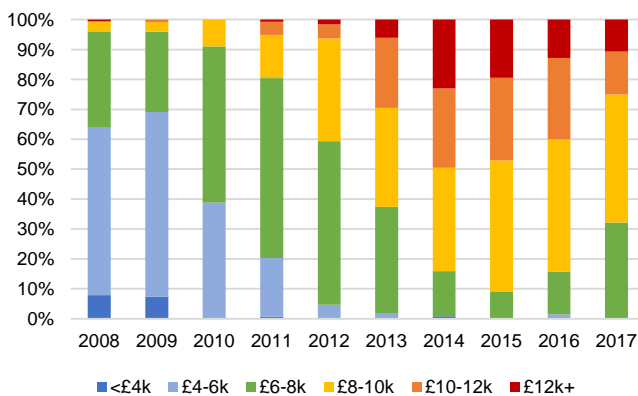
The converse is happening with pasture land, with half of it selling for more than £8,000/acre. Although, the range of prices being paid narrowed in Q2, with fewer premium prices achieved, this is to an extent a reflection of the type of land that has sold during the last quarter. There have been a smaller number of farms sold in Q2 on which a premium was likely to be paid.

Charts 4 and 5

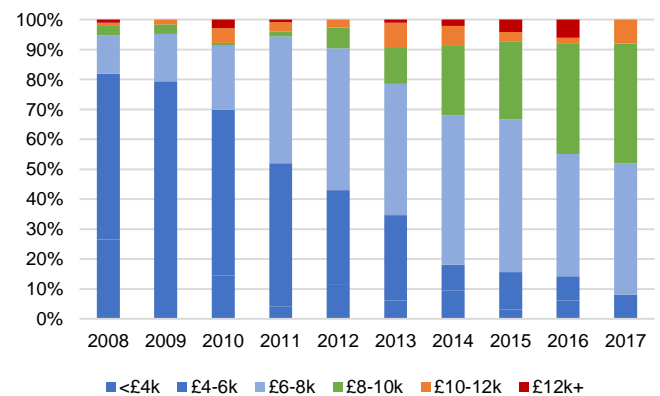
Agreed sale price of arable and pasture farmland, by price band (£/acre)

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



Sales at or above guide price

Although more land is remaining unsold compared with two years ago, what is selling is selling at or above its guide price. This demonstrates some strength in the market and also, probably, the setting of realistic guide prices.

“

Most of the arable land sold is in the £8,000-£10,000/acre price bracket.

Chart 6

% of sales at or above guide price

N.B. Data shows the proportion of farmland sold for more or equal to its guide price. Year is when the farmland was marketed and is for entire years, apart from 2017 which is Q1 and Q2 only.



— Equal or higher than guide

Prices around the regions

Pasture prices have not changed much since the first quarter, but there is continuing evidence of prices continuing to rise for the most desirable arable land and weaken for the less attractive land blocks.

Table 6

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). Change is from previous quarter.

South East

| | Arable | Pasture |
|-------------------------------|-----------------|-----------------|
| Bottom 25% (change) | £7,500 (0%) | £5,300 (2%) |
| Average (change) | £9,500 (-2%) | £7,300 (-3%) |
| Top 25% (change) | £11,200 (0%) | £8,700 (-1%) |

“Residential farms have strengthened in popularity, partly due to limited supply and partly because of an unexpectedly high level of buyer activity post-election. For larger, well-equipped commercial farms, there is roll-over money to be spent (often from buyers outside the region). However, overall supply and demand are finely balanced, with a range of factors playing a big part in the prices bid. Finally, interest in land for vineyards continues to grow, particularly if the land is suitable for sparkling wine grape varieties.”

Mark McAndrew, South East region

South West

| | | |
|-------------------------------|-----------------|-----------------|
| Bottom 25% (change) | £6,500 (0%) | £5,500 (0%) |
| Average (change) | £8,500 (0%) | £7,000 (-3%) |
| Top 25% (change) | £12,000 (9%) | £9,000 (0%) |

“Only a small amount of land came to the market in the south west during the second quarter of the year and there is a shortage of commercial arable farms available. We are also seeing a continuation of the trend for people to market their farms privately. Location remains the key driver of price and has resulted in a two-tier market. Arable ground is currently ranging from £6,500/acre to more than £10,000/acre, while pasture is selling for £5,500-£9,000/acre.”

Charlie Evans, South West region

East of England

| | Arable | Pasture |
|-------------------------------|----------------|------------|
| Bottom 25% (change) | £7,500 (7%) | n/a n/a |
| Average (change) | £8,500 (0%) | n/a n/a |
| Top 25% (change) | £9,500 (0%) | n/a n/a |

“More than 8,500 acres have been launched on the market in the East of England over the past six months, which is just under half of the total acreage that came to the market in the region in 2016. Farms with strong interest from a local buyer, good accessibility and appealing characteristics are achieving the highest values, but prices continue to fluctuate widely, with the central range tending to be between £7,500/acre to £9,500/acre.”

Giles Allen, East of England region

East Midlands

| | Arable | Pasture |
|-------------------------------|-----------------|-----------------|
| Bottom 25% (change) | £7,800 (-3%) | £6,500 (0%) |
| Average (change) | £8,500 (0%) | £7,000 (0%) |
| Top 25% (change) | £9,000 (0%) | £8,000 (-3%) |

“We have seen a number of buyers with funds to spend as a result of selling development land, but they are understandably looking for farms near to their existing holdings and there is a shortage of land in the right places. There are some 200-300 acre blocks that are struggling to sell, because they just aren't in the right location. For a farm to achieve £9,000/acre or more it needs to be close to the right person.”

Sam Holt, East Midlands region

West Midlands and Central

| | Arable | Pasture |
|-------------------------------|-----------------|-----------------|
| Bottom 25% (change) | £8,200 (2%) | £6,000 (-9%) |
| Average (change) | £9,000 (1%) | £7,000 (0%) |
| Top 25% (change) | £10,000 (3%) | £8,000 (-3%) |

"The supply of land seems to be catching up with demand. Farmers choosing to retire has brought about half a dozen small- to medium-sized farms and bare land blocks to the market in recent months, mainly in Oxfordshire and Gloucestershire. The best-located farms are still selling well if realistically priced, with demand particularly strong for 250-400 acre blocks with good access and the potential for diversified income away from mainstream farming."

Matt Sudlow, West Midlands and Central region

North

| | Arable | Pasture |
|-------------------------------|-----------------|----------------|
| Bottom 25% (change) | £6,500 (-3%) | £4,500 (5%) |
| Average (change) | £7,850 (-2%) | £6,100 (0%) |
| Top 25% (change) | £10,000 (3%) | £7,500 (3%) |

"The difference between the highest and lowest prices paid for land has never been so wide. The best land, characterised by its location and quality, is selling very quickly and well. However, demand has fallen for secondary quality land, in less sought-after areas, or for farms where there is property that needs work. I expect the market to be selective over the coming months, with some blocks of land and farms struggling to find buyers, but don't be surprised to hear of some top prices being paid for the most attractive properties."

Will Parry, Northern region

Market outlook

We work with independent economic consultants Volterra to produce forecasts for how farmland prices might change over 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.

Farmland prices have been more resilient than many people expected in the past year, since the Referendum vote. The decision to leave the EU means the UK has to develop its own agricultural policy, with probably lower subsidies for farming.

However, while demand for land from farmers has undoubtedly weakened from its peak in 2014 and 2015, many farmers are still interested in buying as their profitability has been buoyed by higher commodity prices due to the weakening of sterling and also as there is some medium-term certainty – that farm subsidies are guaranteed until at least 2022.

Demand from non-farmer buyers has not weakened at all, driven by lifestyle buyers and also people rolling-over windfall funds.

Therefore, there are two opposite pressures on farmland prices, from farmers and non-farmer buyers. However, as most land will continue to be of interest to farmers rather than investors, the overall pressure on prices is likely to be downwards rather than upwards. Our forecast therefore is for low but positive capital growth (say 2-4% real growth pa) in the medium-to long-term (5-20 years), reflecting past performance and the ongoing attractiveness of farmland as an investment.



Farmland prices have been more resilient than people expected.

Table 7

Forecast percentage change in English farmland prices for next five years

N.B. Forecasts made December 2016.

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------|------|------|------|------|------|
| Central | 0% | 0% | 0% | 5% | 5% |
| High | 3% | 3% | 3% | 10% | 10% |
| Low | -7% | -7% | -7% | 0% | 0% |

Who to contact

National

Mark McAndrew

T: 020 7318 5171

E: mark.mcandrew@struttandparker.com

East of England

Giles Allen

T: 01473 220422

E: giles.allen@struttandparker.com

South West

Charlie Evans

T: 01722 344010

E: charlie.evans@struttandparker.com

East Midlands

Sam Holt

T: 01780 484042

E: sam.holt@struttandparker.com

Research

Jason Beedell

T: 020 7318 4757

E: jason.beedell@struttandparker.com

Head of Estates & Farm Agency

Michael Fiddes

T: 01223 459505

E: michael.fiddes@struttandparker.com

South East

Mark McAndrew

T: 020 7318 5171

E: mark.mcandrew@struttandparker.com

West Midlands and Central

Matthew Sudlow

T: 020 7318 4668

E: matthew.sudlow@struttandparker.com

North

Will Parry

T: 01423 706761

E: will.parry@struttandparker.com

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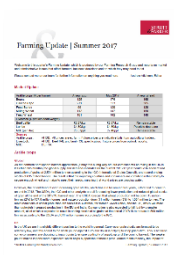
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539 acres | £8.75 million

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Methodology

All data in this market report is from Strutt & Parker's Farmland Database of privately 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 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. The Strutt & Parker Farmland Forecast Model was developed jointly with Volterra, an independent economic consultancy.

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