

English Estates & Farmland Market Review

Autumn 2018



Market overview

Farmland volumes highest for 10 years

We said in our last review that 2018 was a year of extremes and that continues to be the case – both in terms of farmland values and the volume of land coming to the market.

The price of arable land over the past nine months has varied between £6,000/acre and £15,000/acre. Meanwhile, we've gone from very tight supplies earlier in the year to a position where we've seen more land marketed in 2018 than at any point in the past 10 years.

A significant chunk of the land which came forward in Q3 is accounted for by sales by a handful of larger landowners. Seven farms marketed in Q3 account for 28,000 acres alone. However, even ignoring these, supplies do look to have increased. It is too early to say whether this is a trend or a blip.

Following the publication of the Agriculture Bill, questions are inevitably being asked about its possible impact on long-term values. In our view, there are still so many uncertainties it is too soon to come to any firm conclusion (see impact of Agriculture Bill). There are so many other factors apart from farming profitability that affect land values that other political and economic issues need to be factored into any kind of prediction.

The one certainty is that it has never been more important to seek advice if you are considering buying or selling farmland.

The market at a glance

Supply

- Greatest amount of land marketed for ten years – but a considerable percentage is coming from a small number of sales.
- Significant increase in the number of farms and total amount of land for sale in East of England and the South West.
- More residential farms are for sale.

Demand

- Location is the key driver to demand, particularly for the smaller blocks of land.
- More farms remain unsold or withdrawn than in previous years. Sales are taking longer to complete.
- Strongest demand is for cereals farms and farms over 1,000 acres.



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Pricing

- Most arable land is selling at £8,000-10,000/acre, with less selling at £10,000 or more. Average is stable at £9,500/acre.
- Average price for pasture land rose to £7,800/acre.
- Range of prices paid remains wide, making 'average' prices less meaningful.

Supply

An unprecedented 50,000 acres has hit the market during the past three months, which means we have seen more land marketed in 2018 than in any of the previous 10 years. There have been more farms for sale in the East of England, including six larger than 1,000 acres (compared with two in 2017). There has also been a big increase in the South West, with 46 farms marketed, the most since 2010, and 8,000 acres in the North East compared with 2,100 in 2017.

Whilst it would be easy to jump to conclusions as to why there has been a considerable rise in supply of land in the market, the underlying factors which have always led to the sales (often known as the three Ds – death, debt and divorce) are still as relevant as ever, albeit the prospect of Brexit does seem to have acted as a prompt for some landowners to reflect on their long-term future in land ownership.

Figure 1 Amount of farmland publicly marketed in England (acres)

N.B. Figures are for whole years unless otherwise stated and are rounded to the nearest 100 acres. Privately marketed farmland has been excluded due to the difficulty of collecting comprehensive information.

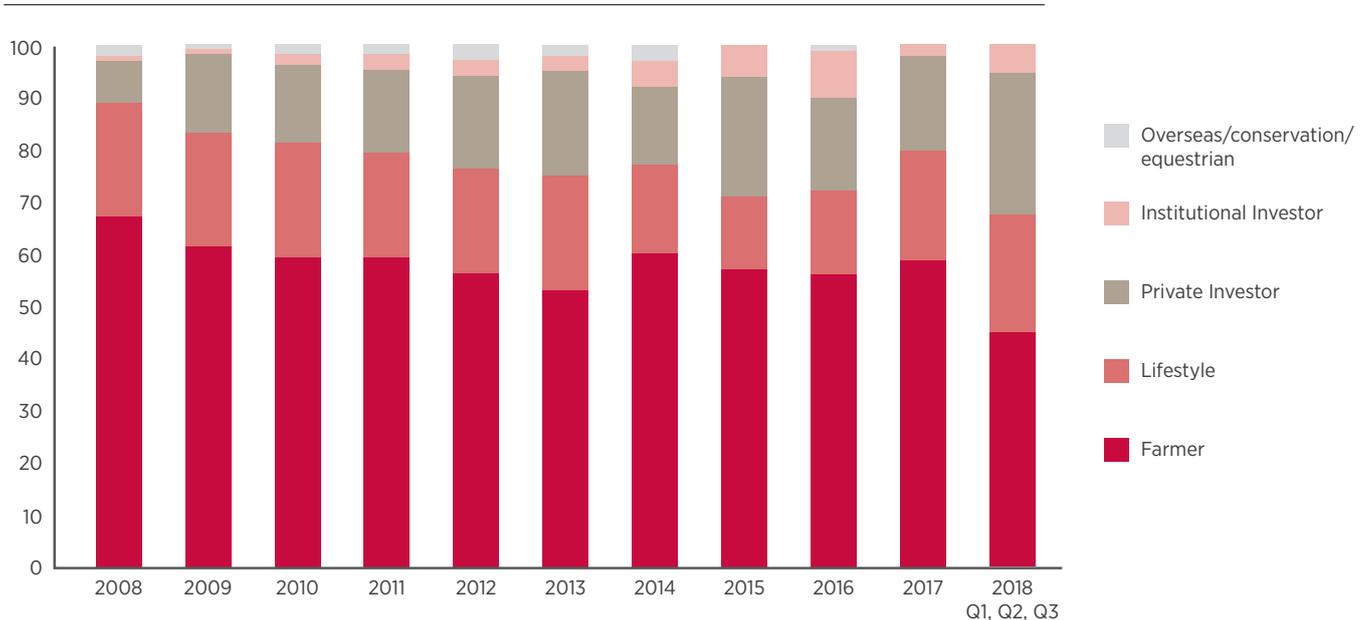
	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorkshire & Humberside	England
2013	11,500	9,600	9,100	2,600	12,800	17,500	9,600	6,600	79,200
2014	6,500	14,100	4,600	2,400	11,400	14,400	12,200	5,300	70,800
2015	15,800	16,600	4,900	7,700	18,800	13,400	6,100	4,500	87,800
2016	12,900	17,100	4,100	4,000	18,800	13,200	4,700	13,000	87,800
2017	12,400	12,100	2,300	6,100	10,200	12,300	11,400	11,300	78,200
Q1, 2 & 3 2016	11,500	14,500	3,300	3,900	12,900	11,100	3,500	12,400	73,200
Q1, 2 & 3 2017	11,500	11,100	2,100	5,600	8,700	10,300	11,200	10,900	71,200
Q1, 2 & 3 2018	8,400	30,000	8,000	2,000	10,300	17,100	12,300	8,500	96,600

Demand

Demand is patchy, with a third of the farms marketed in 2017 still available or withdrawn, which is more than in previous years. It is greatly affected by location with demand strongest for cereals farms and large farms over 1,000 acres. It is weakest for livestock and dairy farms, and for small (100–250 acre) residential farms, which are as affected by the factors behind a slowdown in the top end of the housing market, as they are by any changes to the farmland market. Deals are taking longer to put together, but farms that sell, sell well with over half achieving their guide price or more. The number of farmer buyers has fallen, but demand from investors and lifestyle buyers continues to strengthen in all regions. It was a late start to the market in 2018, so we expect the number of sales completing during Q4 to increase.

Figure 2 Buyer type

N.B. Data is by number of sales, not acres. The year is when the farmland was sold (exchanged) and is for whole years apart from 2018 which is Q1, 2 and 3 only.



Pricing

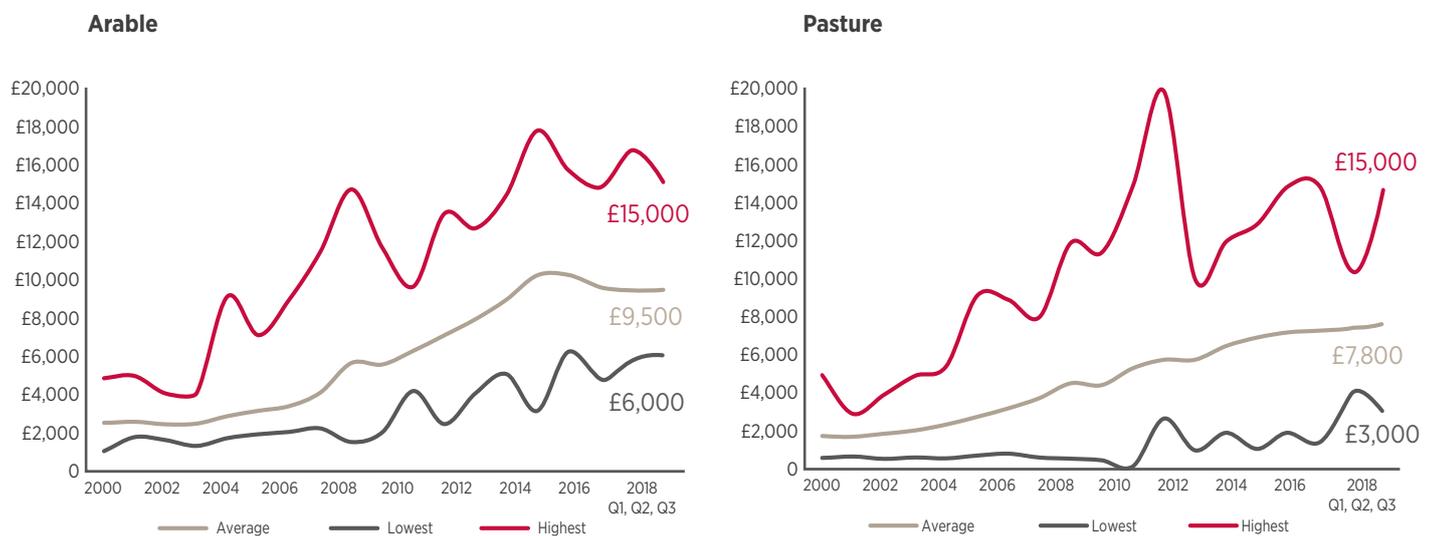
Average sale prices

Arable land sold in 2018 has averaged £9,500/acre, which is about the same as in 2017 and 2016. The average arable price in Q3 was £9,000/acre, although relatively few farms sell in each quarter, so the figure needs to be taken in context. Prices remain highly variable ranging from a low of £6,000/acre to a high of £15,000/acre. Sale price bands may offer a more meaningful insight into where prices are at for the majority - most arable land (58%) has sold at £8,000-10,000/acre in 2018, with 30% selling above £10,000/acre.

The average price paid for pasture land has also risen but, as we have noted before, the average price does encompass rough moorland which is selling at £3,000-5,500/acre, and amenity land around residential farms and estates, which can sell for well over £10,000/acre.

Figures 3 & 4 Average, lowest and highest sale prices of arable and pasture farmland (£/acre)

N.B. The year is when the farmland was sold (exchanged) and is for whole years apart from 2018 which is Q1, 2 and 3 only. 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, they 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 prices for farmland by region, which are on the following page.



Impact of Agriculture Bill

The publication of the Agriculture Bill, which confirms the government's intention to phase out direct subsidies by 2028, has given the farming sector more clarity about the future of support payments. Yet there are still plenty of outstanding questions which make predictions about the Bill's possible impact on land values difficult.

Farm profitability is just one of a number of factors affecting farmland values and while the removal of direct payments will have a significant impact on farm incomes, profitability will also be affected by post-Brexit trading arrangements which are yet to be agreed. In addition, we don't know at this stage how the drop in direct payments might be offset by a new environmental support system.

We've already had two years of uncertainty and on the whole land prices have held up remarkably well. As we approach the implementation of a new British Agricultural Policy we expect this to remain the case and there to be a continuing wide variation in prices achieved.

Farmers may be less willing to commit to purchasing land, especially on borrowed money, and it is possible that in commercial farming areas the quality of the land may become more important to buyers than it is now.

However, there has never been a direct correlation between farm profitability and land prices. This is because there have always been people who buy land for lifestyle or tax reasons and there continues to be a good demand from money made outside agriculture.

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



N.B. The prices are 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. Percentage annual change is the change from the same quarter in the previous year.

For further information on the national estates & farmland market please contact Mark McAndrew on 020 7318 5171 or email mark.mcandrew@struttandparker.com

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.

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