

Scottish Farmland Market Review

Winter/Spring 2019



Market Overview

Welcome to our review of the Scottish farmland market.

Nationwide, 2018 was characterised by uncertainty and in early 2019, the future of the UK and its relationship with the EU continues to be unclear.

In the farming world, opinion is split regarding what the future holds, and we at Strutt & Parker find it similarly difficult to predict what lies ahead.

However, our experience, coupled with our comprehensive Farmland Database which records all farm sales in Scotland, provides us with an illuminating insight into the current marketplace.

Continued overleaf.

The market at a glance

Supply

- 120 farms were marketed for sale in 2018, equating to 45,200 acres.
- Almost a third were arable farms, of which only 1 in 5 constituted prime land.
- The main motivation for selling a farm in 2018 was due to retirement and an absence of successors.

Demand

- Demand remained in line with 2017, despite an increase in supply.
- Strong demand for prime arable farms and those with diversified income streams.
- Buyer types varied depending on farm type but were mainly local farmers, 'rollover buyers', English and Northern Irish farmers and forestry investors.

Pricing

- Record breaking values were achieved for prime arable land in East Lothian and Angus.
- Hill land with the potential for afforestation achieved unprecedented prices per acre from forestry investors.
- The majority of farms were sold around or in excess of their asking price.



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Market overview

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In 2018, the farmland sector was marked by a significant increase in supply, with more land coming to the market than at any other point in the last ten years.

On the whole, there was a strong demand for all farms, but with significant variation depending on their size, type or location. Those particularly sought after continued to include prime arable farms and those with diversified income streams.

A development was the rise in demand for hill farms and bare land with the potential for afforestation.

Overall, average land values remained stable while in the eastern counties, and in particular East Lothian and Angus, record breaking prices were achieved for prime bare arable farmland.

Looking ahead, we are positive about the farmland market and expect market sentiment witnessed last year to continue.



'... strong demand for all farms, but with significant variation depending on their size, type or location.'

Supply

Amount of farmland marketed

2018 saw the largest volume of land hit the market than at any other time in the last decade. This equated to 45,200 acres, a 44% increase in supply from 31,300 acres in 2017.

Table 1 Amount of farmland marketed in Scotland (acres)

NB Figures are for whole years unless otherwise stated and are rounded to the nearest 100 acres. All of the figures on supply or numbers of farms exclude estates, sporting and woodland properties; they also exclude privately marketed farmland due to the difficulty of collecting comprehensive information.

	Highlands and Islands	Lothians	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2014	5,100	1,700	4,900	4,700	1,300	3,100	3,100	23,900
2015	4,400	1,600	7,500	8,200	6,500	3,800	1,300	33,300
2016	1,200	3,300	10,600	11,200	3,600	6,800	3,900	40,600
2017	5,000	1,100	2,100	8,500	4,000	5,800	4,800	31,300
2018	4,400	4,400	8,300	12,300	1,700	11,200	2,900	45,200
5-year average	4,000	2,400	6,700	9,000	3,400	6,100	3,200	34,900

Number of farms marketed

The number of farms marketed for sale increased by 48% from 81 farms in 2017, to 120 in 2018.

Table 2 Number of farms marketed

NB Figures are for whole years unless otherwise stated and are rounded to the nearest 100 acres. All of the figures on supply or numbers of farms exclude estates, sporting and woodland properties; they also exclude privately marketed farmland due to the difficulty of collecting comprehensive information.

	Highlands and Islands	Lothians	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2014	10	5	18	11	4	13	10	71
2015	10	6	26	24	8	11	6	91
2016	6	5	34	37	7	18	11	118
2017	10	3	9	23	8	15	13	81
2018	11	6	29	28	6	27	13	120
5-year average	9.5	5	23	24.5	6.5	17	10.5	96

Types of farm

Almost a third of the farms marketed in 2018 were arable units; yet just a fifth of these included prime arable land (i.e. grade 1 to 3.1), a shortage which is an ongoing and historic trend in Scotland.

Livestock farms remained a significant proportion of the market while the volume of hill farms rose considerably, with 26 sales this year compared to 7 in 2017 and 9 in 2016. This is likely to be directly related to increasing demand from forestry investors.

There was activity across all regions, but most especially within central Scotland and two opposing corners of the country: Aberdeenshire where the most arable farms under 500 acres were situated, and Dumfries and Galloway in the South West, a market which predominantly comprised livestock and hill farms under 500 acres.

In recent years, we at Strutt and Parker have sold farms across all regions and have developed a strong market share, particularly in the North of Scotland. Over the past 24 months, we have sold 70% of farms over 100 acres in The Highlands.

Table 3 Main type of farms marketed

	Amenity	Arable/ Horticultural	Dairy	Hill	Livestock	Mixed	Residential
2014	2	20	8	2	31	8	–
2015	3	30	8	1	33	15	1
2016	4	38	6	9	35	25	1
2017	–	18	8	7	23	24	1
2018	1	37	9	26	24	18	5
5- year average	2	28.5	8	9	29	18	1.5



‘2018 saw the largest volume of land hit the market.’

Size of farm

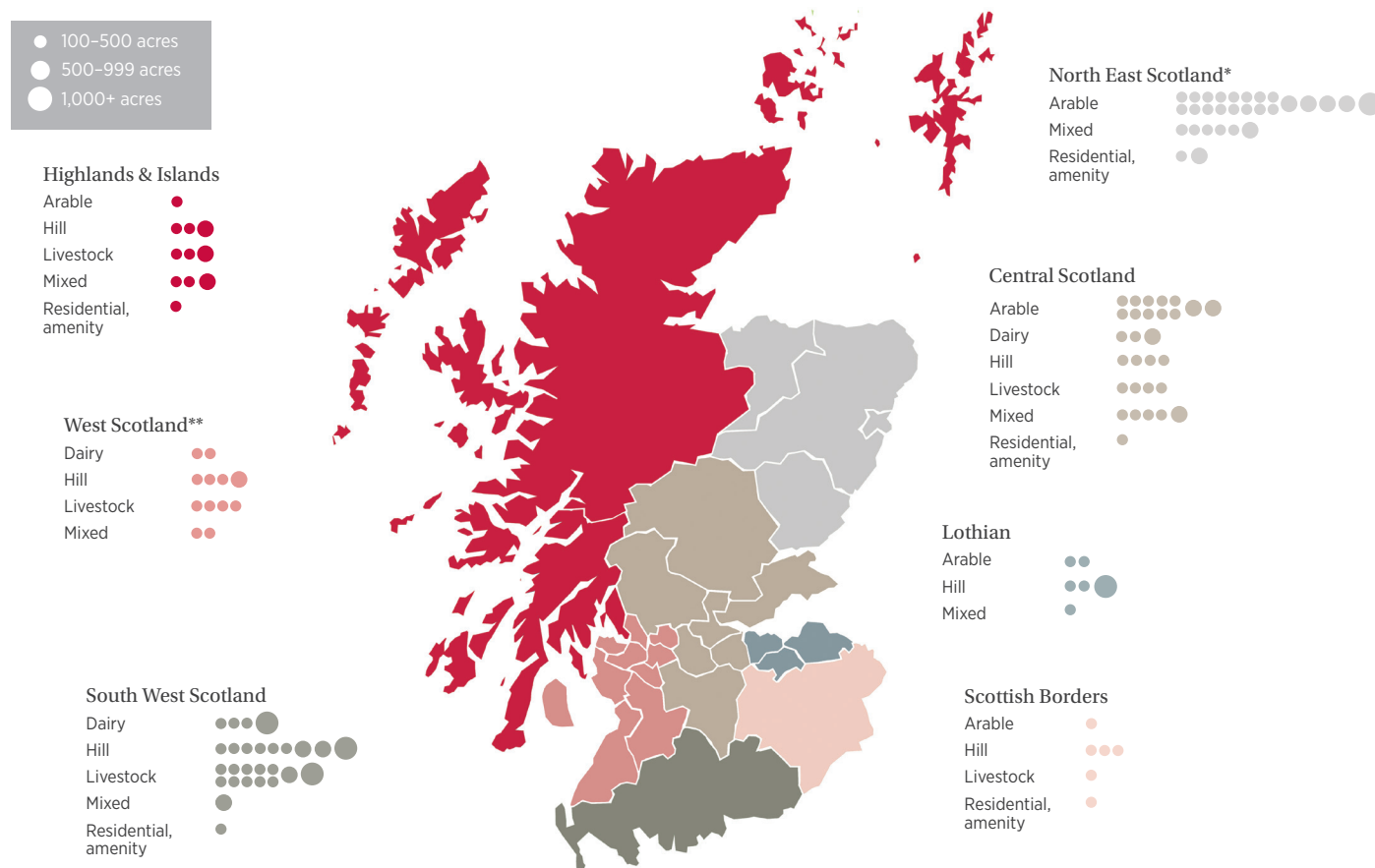
Similarly to last year, there was a limited supply of large farms over 500 acres. Only 19% – or 23 farms – were larger than 500 acres, and of that, just five farms were greater than 1,000 acres.

Reasons for selling

The main driver for selling was retirement, which is perhaps unsurprising considering an ageing farming population and the future challenges faced by successive generations and new entrants to farming. Some wished to downsize whilst continuing to farm and others opted to expand by selling and purchasing larger or higher quality farms.

Additionally, some sales were the result of investor owners wanting to release capital in order to reinvest in other asset categories (perhaps a trend created by political uncertainties). Other reasons for sales included those sceptical about the future of farming and bankruptcies/insolvencies.

Figure 1 Number of farms marketed in 2018 by region, farm type and farm size



* ** There was also a horticulture farm marketed in North East Scotland and an amenity farm in West Scotland.

Demand

Area of farmland sold

Of the 120 farms launched during the year, 72 were sold or under offer by early December. This equated to 60% of the farms available finding a buyer, a decrease from 2017 and down from the 5-year average of 78%.

Of those farms sold/under offer just 20% had concluded missives by the start of December. This puts enormous pressure on buyers, sellers and their respective solicitors in the run up to Christmas.

In recent years, we have observed a reduction in the seasonal nature of farmland sales; this is supported when analysing the farms which remain on the market at the start of the new year. The majority of these were launched for sale in the autumn (i.e. October or November), a time of year no longer seen as unseasonal to launch a farm. These farms have not yet had time to sell, which partly explains the proportionate rise in unsold farmland.

Farms most popular in 2018 included prime arable land, which were again in low supply. They generated strong demand and intense local competition, particularly in East Lothian, Fife and Angus.

Additionally, diversified farms were desirable. The uncertain future of agricultural subsidies and fluctuating commodity prices has rendered farms with varied income streams increasingly attractive.

Contrastingly, units struggling to sell were mainly blocks of bare secondary arable ground, suggesting a lack of appetite from farmers to expand in certain areas of the country.

A handful of farms have been on the market since 2017, the highest proportion of which are small livestock farms of less than 100 acres. This suggests that livestock farming buyers are looking for properties where they can benefit from economies of scale or those which can support high stock numbers.

Chart 1 Number of farms marketed in 2018 by farm type and sale status

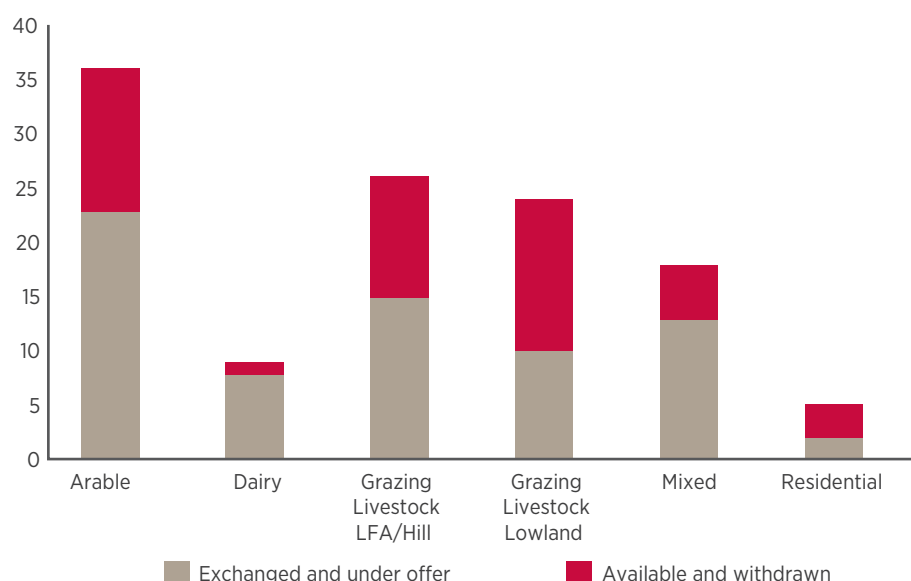
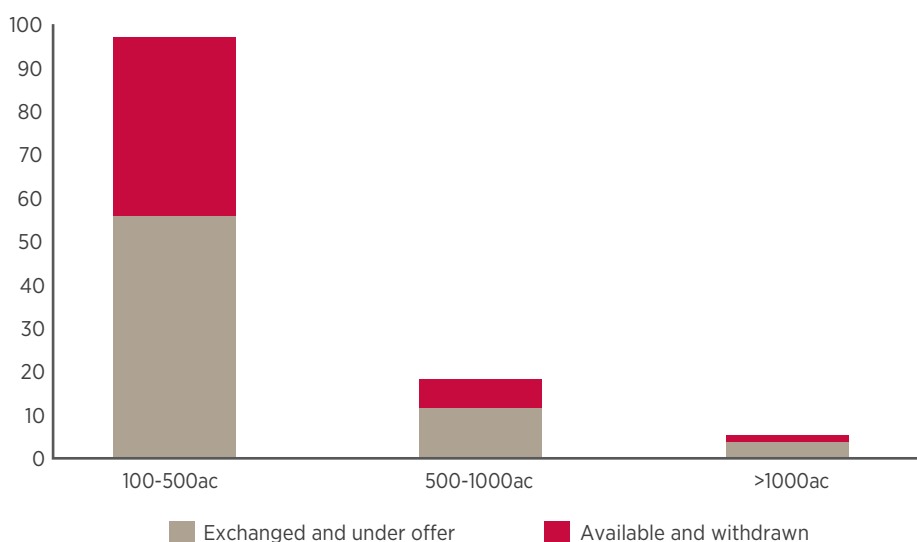


Table 4 Speed of land transactions - % of farmland sold (concluded missives)

NB Data shows the sale status at the year-end of land marketed for sale by percentage of acres not number of sales.

	Available	Concluded Missives	Under Offer	Withdrawn
2014	3	79	6	12
2015	7	62	19	12
2016	4	75	3	18
2017	5	68	16	11
2018	33	20	40	7
5-year average	10	61	17	12

Chart 2 Number of farms marketed in 2018 by farm size and sale status



Types of buyer

From our experience within the farmland market last year, we found that the background of buyers varied significantly depending on the size, nature and location of the farm.

There was intense local competition for bare land and arable farms in the eastern counties from Angus to Berwickshire.

Meanwhile, marginal farms with the potential for planting attracted ferociously competitive bidding from commercial forestry investors. Strutt & Parker's forestry division, John Clegg & Co, recently reported in its annual Forest Market Report that Scotland retained its dominant position in the commercial forestry marketplace with 69% of the sales recorded in 2018. Increased budgets for woodland creation schemes for 2018 and 2019 are a clear sign of the importance placed on forestry within the rural economy by the Scottish Government.

There was significant interest in large mixed units from English 'rollover' and Northern Irish purchasers. The view that purchasers' money can go further north of the border and at this side of the Irish Sea continues to attract buyers from outside Scotland.



'Autumn (i.e. October or November), a time of year no longer seen as unseasonal to launch a farm'

Pricing

Highest, lowest and average sale prices

We saw significant variation in prices in Scotland in 2018 – particularly in arable land.

Although average prices have remained at a similar level to last year, this masks the strengths and weaknesses of the market which are dictated by location, land quality and extent.

As a guide, the variation in current values is as follows:

Prime arable: £7,000–£17,000/acre	Secondary arable: £3,000–£7,000	Grass leys: £1,750–£5,500	Permanent pasture: £1,000–£4,750	Rough grazings/hill: £200–£2,000 (depending on the land being plantable for forestry)
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We saw record breaking values achieved last year in the sale of prime, bare arable land in both East Lothian (highest £14,600/acre) and Angus (highest £17,000/acre), equating to up to a 20% increase when compared to previous years.

This is underpinned by the shortage of supply of such land which leads to competitive bidding amongst successful local farming businesses. The values achieved this year bring prime Scottish farmland into line with its English equivalent.

Sales of livestock farms remained reasonably robust but with geographic variations. However, more marginal farms fell slightly in value due to oversupply.

Values of hill land increased significantly where it was deemed suitable for forestry planting, even if the agricultural value was relatively low. In some cases, forestry investors were seen to pay prices of up to £2,000/acre equating, in some cases, to several times the agricultural value and ultimately pricing farming buyers out of the race.

Selection of Scottish farms sold by Strutt & Parker in 2018



Olrig Mains, Caithness
515 acres | Offers Over £1,750,000



Hensol Farms, Kirkcudbrightshire
1,055 acres | Offers Over £2,740,000



Duntuim Farm, Perthshire
253 acres | Offers Over £925,000



East Bowhouse Farm, Fife
221 acres | Offers Over £1,500,000

Sales at or above asking price

From our experience last year, about four out of five farms sold around or above their asking price. Most sales were the product of a competitive closing date.

Although buyers continued to face competitive scenarios when purchasing farms, the amount of competition has diminished slightly for the average farm.

Where previously a number of bids were received on the day for best and final offers, it is becoming more common to receive just two or three.

Fortunately fall-throughs remain rare. However, an increase in the average time between agreeing a sale and concluding missives reflects caution among buyers operating amidst weakening competition.

Chart 3 Number of farms marketed in 2018, by asking price bands and sale status

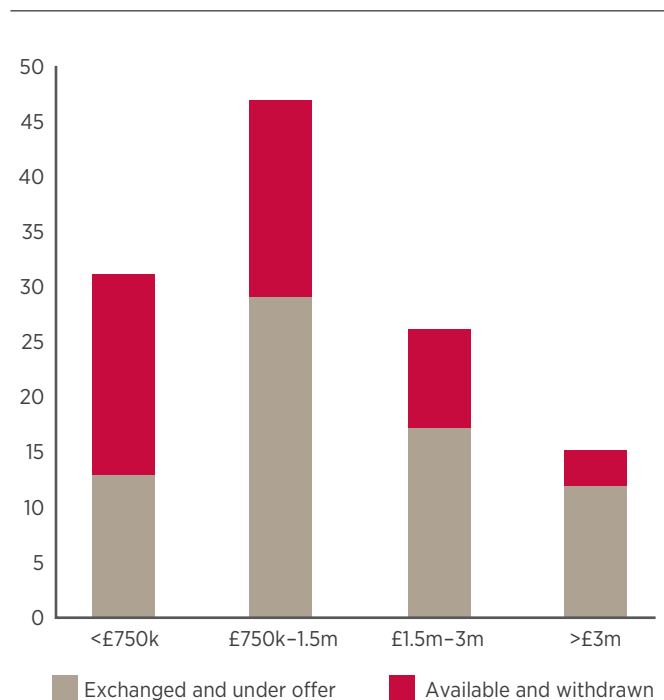


Table 5 Estimates of top 25%, bottom 25% and average prices for arable and pasture farmland by region (£/acre)

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 2018	Arable			Pasture		
	Bottom 25%	Average	Top 25%	Bottom 25%	Average	Top 25%
Highlands and Islands	2,750	4,500	7,000	1,250	2,250	2,750
Lothians	4,250	7,000	12,500	1,500	2,500	4,500
Central Scotland	4,000	6,500	8,500	1,500	3,000	4,000
North East Scotland	4,000	7,000	14,500	1,500	2,000	3,500
Scottish Borders	4,000	6,500	9,000	1,500	2,000	3,750
South West Scotland	3,000	4,000	6,000	1,500	2,750	4,500
West Scotland	3,000	4,000	5,250	1,500	2,500	3,500

Market Outlook

In summary, the farmland market performed well last year; the volume of land on the market increased, demand was generally positive, average land values were largely unchanged and in some instances unprecedented prices were achieved.

However, market buoyancy was set against a fragile year for agricultural businesses, which had to cope with political uncertainty, looming changes in subsidy payments, increasing input costs and perhaps the most testing factor - the wrath of mother nature.

A prolonged wet period kicked off 2018, followed by the 'Beast from the East' and, if farmers thought they hadn't been tried enough, a drought over the summer months. The effects shortened the window for spring sowing, impacted on yields and created forage shortages across the country.

With production lower than average, it is no surprise that the balance of demand and supply led to an uplift in cereal prices but a corresponding knock in livestock prices due to the limitations and rise in feed costs.

It is predicted that commodity prices will dip slightly in 2019 but they should still be higher than 2017. We can only hope that this will be countered by better luck in improving yields. The exception surrounds milk prices, which are difficult to predict and will largely be dictated by the EU.

We envisage that in 2019 the market will continue to be characterised by extremes dictated by land type, flexibility of land use and geography. The increasing age of farmers and their desire to retire will support supply, and demand will be underpinned by scarcity of prime land and forestry investment opportunity.



'... average land values were largely unchanged and in some instances unprecedented prices were achieved'

Table 6 Agricultural commodity prices in 2017, 2018 and 2019.

	December 2017	December 2018	A year ahead
Arable crops (£ per tonne)			
Beans	144	230	175
Oilseed Rape	294	316	320
Feed Barley	132	168	140
Milling Wheat	148	176	160
Feed Wheat	143	173	150
Livestock (£ per kilo dead weight)			
Beef cattle	3.92	3.77	Remain stable
Lambs	3.98	3.92	Possible decrease
Milk (per litre)	30.44 (Sept 17)	30.63 (Sept 18)	Likely decrease

Sources:

Arable crops: AHDB & FW. Prices are ex farm. Future prices are indicative bids from agricultural traders.

Livestock: FW. Beef R4L

Conclusion

It is clear that uncertainty has been a feature of all markets this year. The future of trade, currency, support and legislation remains unclear and no doubt will have some impact on the supply, demand and pricing of agricultural property.

However, we are confident that demand from within the arable sector, commercial forestry and those benefiting from development land sales will continue to be prevalent factors and, for those intent on selling, correct pricing and effective promotion will be the key to success.

Our dedicated farm agency team travel the length and breadth of the country securing sales for the year ahead. We have a number of farm sale instructions, both privately and on the open market.

With an experienced team operating from offices in Inverness, Banchory, Perth and Edinburgh we are in a strong position to facilitate the sale of a farm anywhere in Scotland. Therefore, if you are thinking of selling or buying farmland in 2019, we would be delighted to help.



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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 Scotland. This data is for farms only; it excludes estates, which are covered in our Scottish Estate Market Review, and woodland, which is covered in our Forest Market Report published by John Clegg & Co. These figures also exclude sporting property due to its different nature. Our Farmland Database 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.

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