

Scottish Farmland Market Review

Spring 2018



SOLD
September 17
Land at Kingston, East Lothian
399 acres | Offers Over £2,970,000

Demand firm for quality farms

Welcome to our review of the Scottish farmland market.

With the uncertainty surrounding BREXIT and the impact leaving the EU may have on the agricultural industry, it is perhaps unsurprising that the Scottish farmland market witnessed a reduction in supply in 2017.

The market was quieter than usual during the first eight months of the year. However, notwithstanding a wet summer prolonging harvest across many parts of the country, the farmland market also experienced a shift in the seasons. Twenty farms were launched to the open market between October and the end of the year, four times the number during the same period in 2016.

Continued overleaf.



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The market at a glance

Supply

- 83 farms were marketed in 2017, covering 32,400 acres.
- This is 20% less land than was marketed in 2016 but only just below the five-year average.
- There is a continuing lack of prime arable land for sale – those deals done have achieved spectacular prices.

Demand

- Demand remained firm, with 72% of the land marketed in the first half of the year being sold.
- Strongest demand is for large blocks (350 acres plus) of high quality arable ground with good buildings and infrastructure.
- Over half of the hill, livestock and mixed farms remains unsold, particularly smaller units.

Pricing

- We continue to see large variations in land values between and within regions.
- A third of arable land sold for £4- 6,000/acre, with another third selling for less than £4,000/acre.
- Only a small proportion of arable land (17%) sold for over £8,000/acre but this proportion is staying stable.
- Most pasture land sold for £2-4,000/acre.

Market overview

Continued from page 1

If we take these late launches out of our analysis (as some have not had time to find a buyer yet), our data shows that over 70% of land marketed in the first half of the year has sold – the same proportion as sold in 2016. We also found keen demand in the run up to Christmas.

We expect the market in 2018 to be influenced by the future of subsidies, awaited BREXIT decisions, the continuance of tax benefits concerning land, and the political outlook of the UK.

Our Market Involvement

In 2017, Strutt & Parker was instructed to sell 6,700 acres of farmland in Scotland.

The majority of farms exceeded their asking price with most being sold following a closing date. On average, a premium of 11% above the asking price was achieved.

Retirement, upscaling, downsizing, and financial reasons were the main motives for selling farms.

Purchasers were mainly Scottish farmers, but also included English buyers and those from overseas.



‘The Scottish farmland market witnessed a decrease in supply in 2017.’

Supply

Amount of farmland marketed

Our analysis and research tells us that 32,400 acres of Scottish farmland was offered for sale in 2017 (through all firms of agents), which is 20% less than in 2016 and just below the five-year average of 33,054 acres.

Table 1 Amount of farmland marketed in Scotland (acres)

NB Figures are for whole years unless otherwise stated based on farms brought to the market, of over 100 acres and exclude the estates.

	Highlands and Islands	Lothians	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2013	5,166	142	4,924	3,558	11,196	4,937	3,595	33,518
2014	5,139	1,748	4,866	4,657	1,331	3,402	3,406	24,549
2015	4,390	1,603	7,507	8,201	6,525	5,241	1,078	34,545
2016	1,059	3,254	10,595	11,018	3,623	6,822	3,884	40,255
2017	4,333	1,109	3,129	8,382	4,171	5,803	5,474	32,401
5-year average	4,017	1,571	6,204	7,163	5,369	5,241	3,487	33,054

Number of farms marketed

The number of farms for sale fell to 83, well below the 116 marketed in 2016 but still around the five-year average of 85.

North East Scotland, South West Scotland, and West Scotland were the most active regions.

Table 2 Number of farms marketed

	Highlands and Islands	Lothians	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2013	9	1	13	9	8	15	8	63
2014	10	5	18	11	4	14	11	73
2015	10	6	26	24	8	12	6	92
2016	5	5	34	36	7	18	11	116
2017	10	3	11	21	9	15	14	83
5-year average	9	4	20	20	7	15	10	85

Types of farm

29% of farms marketed during 2017 were livestock farms, followed by mixed farms (28%) and arable farms (25%).

A noticeable trend was the continuing lack of prime arable land coming to the market. The very few units offered in this category achieved spectacular prices.

Size of farm

As has been the trend in recent years, the majority of farms were below 600 acres although there were 17 farms (20% of farms marketed) that were of larger size.

In May, Strutt & Parker launched the largest portfolio of farms that was marketed in 2017, totaling 2,397 acres in Easter Ross.

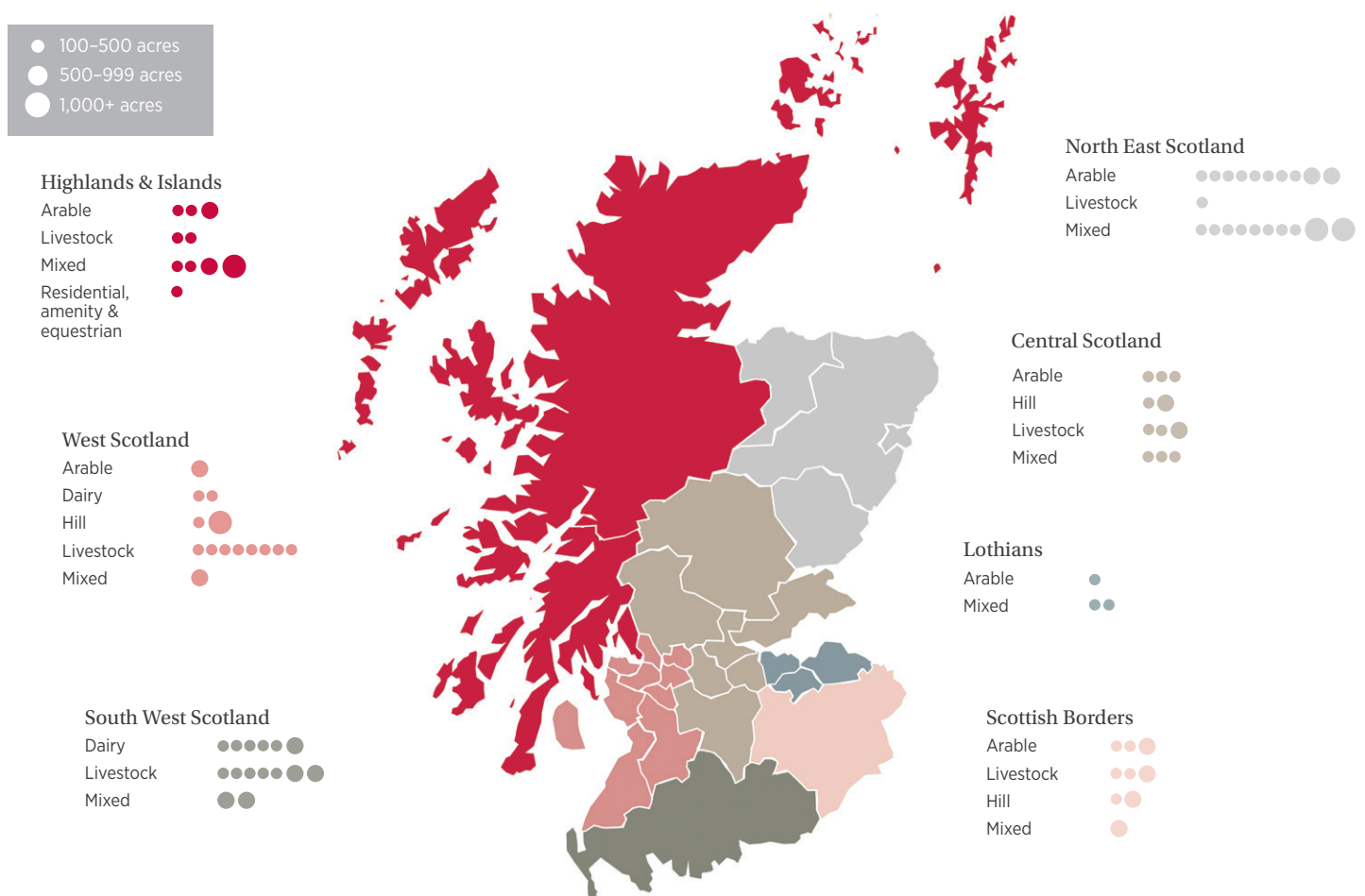
Table 3 Main type of farms marketed

	Amenity	Arable	Dairy	Hill	Livestock	Mixed	Residential
2013	1	20	3	8	21	10	-
2014	2	21	8	2	32	8	-
2015	3	30	8	1	34	15	1
2016	4	38	6	6	35	25	2
2017	-	21	8	6	24	23	1



'The limited supply of prime arable land achieved spectacular prices.'

Figure 1 Number of farms marketed in 2017 by region, farm type and farm size



Demand

Area of farmland sold

By the close of the year, 62% of the land marketed had concluded missives or was under offer, slightly less than at the same time in 2016.

However much more land than usual was launched late in the year; excluding this, as it has not had time to sell, demand remained firm, with 72% of the land marketed in the first half of the year selling – the same as in 2016.

Our discussions with buyers reveal that the most desirable farms are those which include high quality arable ground, are well equipped with good buildings and infrastructure, and in excess of 350 acres. Over half of the hill, livestock and mixed farms remain unsold, particularly smaller units.

Our experience is that sales are taking longer to complete due to more stringent borrowing processes used by lenders, purchasers being involved in a chain associated with the sale of their own farm and lotted sales, which can increase the time needed to resolve legal issues.



‘Scale and value for money attract buyers to Scottish farms.’

Chart 1 Number of farms marketed in 2017 by farm type and sale status

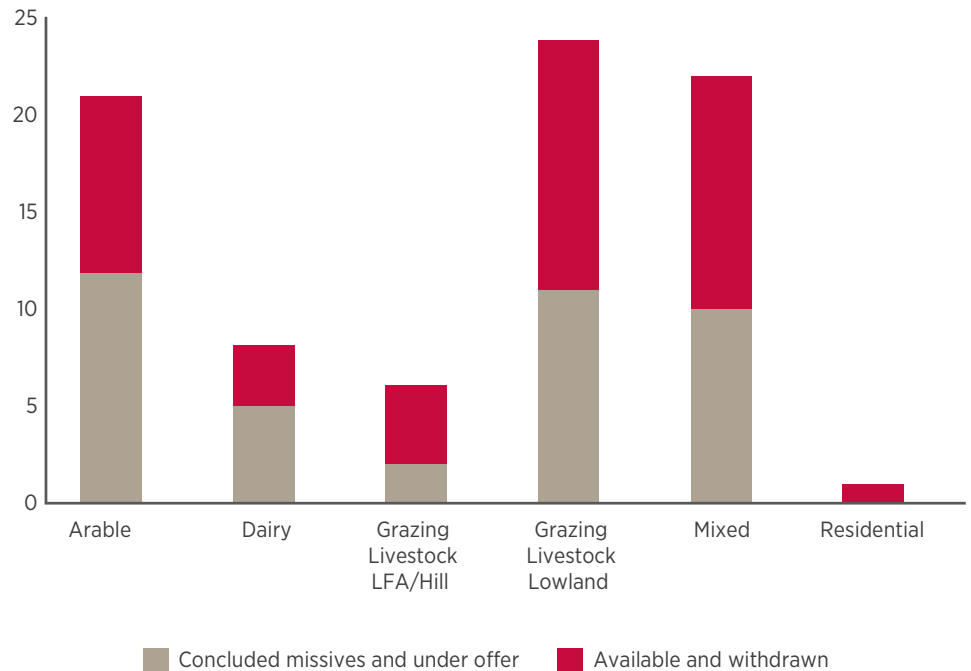
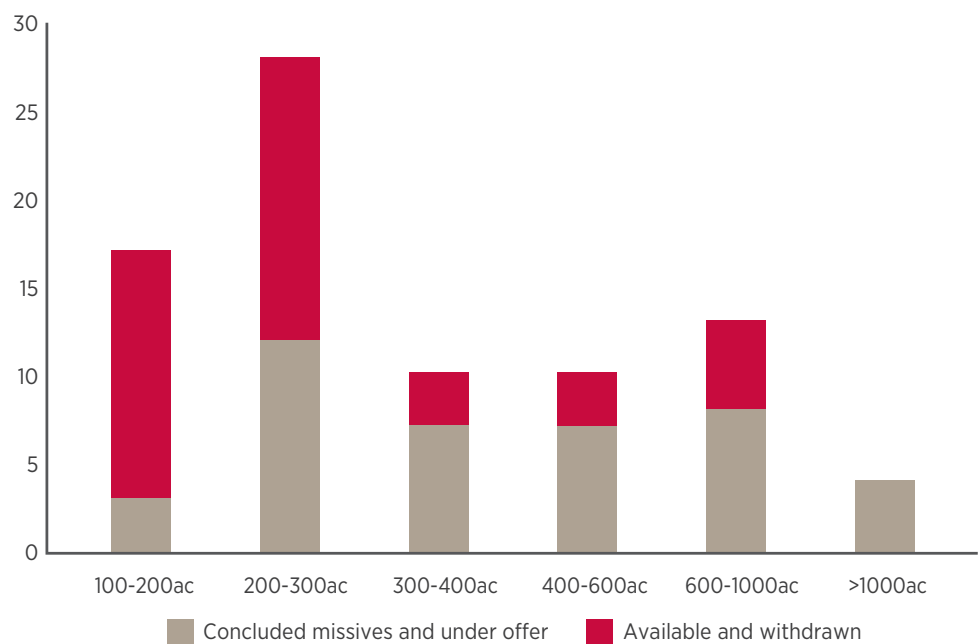


Chart 2 Number of farms marketed in 2017 by farm size and sale status



Types of buyer

The provenance of buyers for Scottish farms widened during the course of the year. We have witnessed more English, European and international buyers re-entering the land market, not only enquiring, but bidding for, and being successful in buying farms.

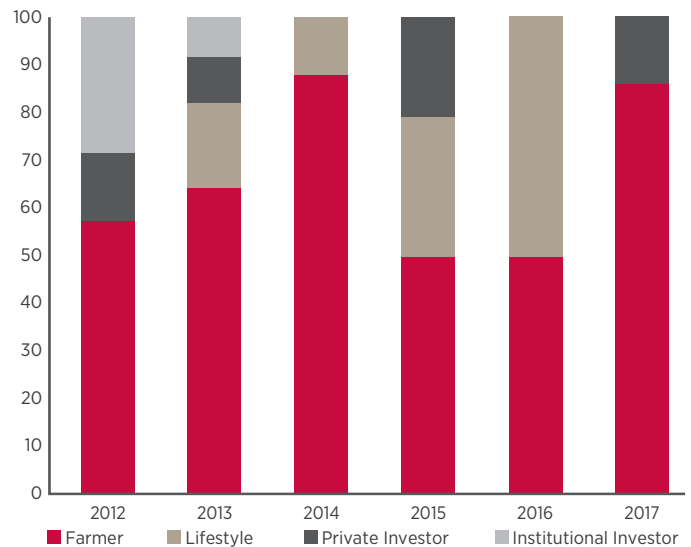
This may be a signal that previous concerns about imminent Scottish independence have been allayed, and that BREXIT uncertainties are not dissuading buyers. Interest from Northern Ireland also increased during the year.

Of the farms we marketed and sold, one fifth was acquired by individuals outwith Scotland. The key attraction of Scottish farms is scale/acreage and the value for money compared with farms south of the border and across the Irish Sea.

With buyers competing for a finite commodity such as land, it is a challenge for new entrants to purchase a farm plus the requisite machinery, livestock, and Basic Payment Entitlement. Therefore, it is rare for a successful bidder to be one of fresh blood to the industry. However, in 2017, we are happy to report that we sold one farm to a young new entrant, taking his first step on the ladder with the hope of making a mark in Scottish agriculture.

Chart 3 Buyer type

N.B. Data is by number of sales, not acres. It is for sales that Strutt & Parker was involved in only. The year is when the farmland was sold (concluded missives) and is for entire years.



Pricing

Highest, lowest and average sale prices

We continue to see large variations in land values between and within regions, particularly with arable land. First class soils in Angus and East Lothian have sold for over four times more than secondary-quality arable land in more marginal areas.

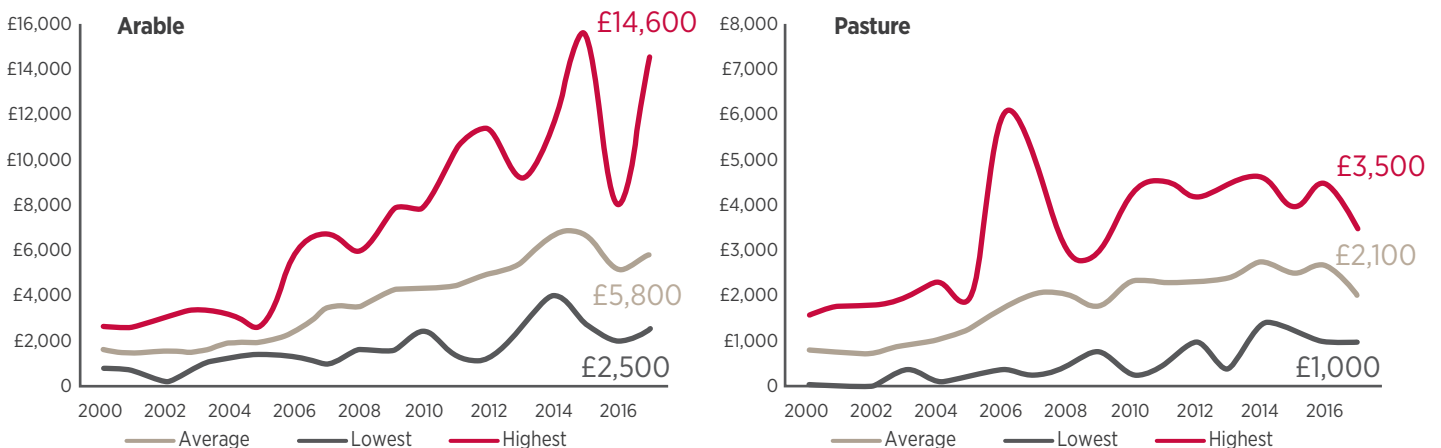
In terms of pounds per acre, hill ground values varied in 2017 from £200–900 an acre, the higher of the two is underpinned by the continuing strong demand for tree planting land. As a guide, the variation in current values is as follows:

Prime arable: £7,000–£14,000/acre	Secondary arable: £3,000–£7,000	Dairy: £2,500–£6,000	Mixed livestock farms: £1,500–£4,500	Hill: £200–£900
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The average price of an acre of arable land in Scotland was slightly higher in 2017 (£5,800/ac) than the previous year (£5,200). Prices paid for pasture moved in the opposite direction, reducing in value slightly to an average of £2,100/ac. However, this data can 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, we recommend using the average, bottom 25% and top 25% prices for farmland by region, which are on the following pages. Broadly speaking land values remained stable throughout the duration of the year.

Charts 4 and 5 Highest, lowest and average sale prices of arable and pasture farmland (£/acre)

N.B. Data is based on sold (concluded missives) prices for vacant arable and pasture land only (i.e. it excludes the value of houses or buildings). Values shown (e.g. £5,800) are lowest, average and highest sale prices in 2017.



Scottish Farms sold by Strutt & Parker in 2017



Shandwick Mains, Easter Ross
370 acres | Offers Over £2,315,000



Ledlation Farm, Kinross-shire
258 acres | Offers Over £850,000



Dere Street Farm, Midlothian
332 acres | Offers Over £750,000



Watten Mains, Caithness
618 acres | Offers Over £2,000,000

Sales at or above asking price

Although a slightly smaller proportion of the land marketed for sale in 2017 has been sold, most farms were sold at or above their asking price.

Chart 8 Number of farms marketed in 2017, by asking price bands and sale status

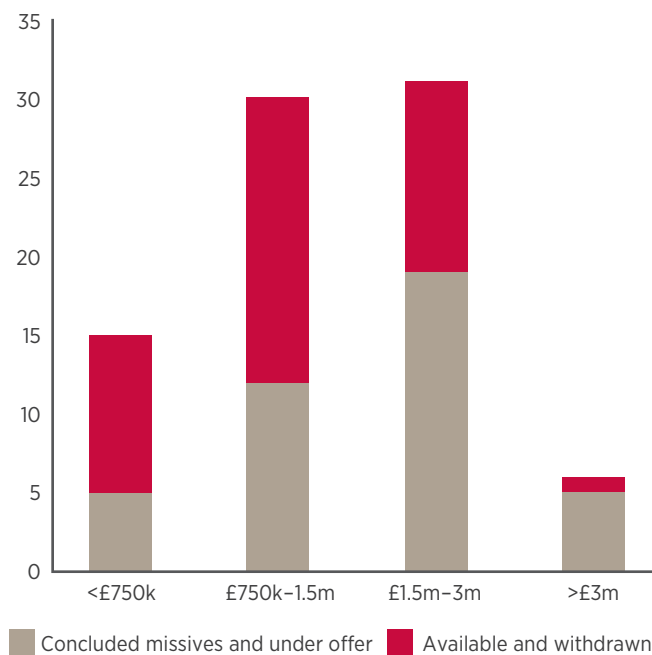


Chart 9 % of sales at or above asking price

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.

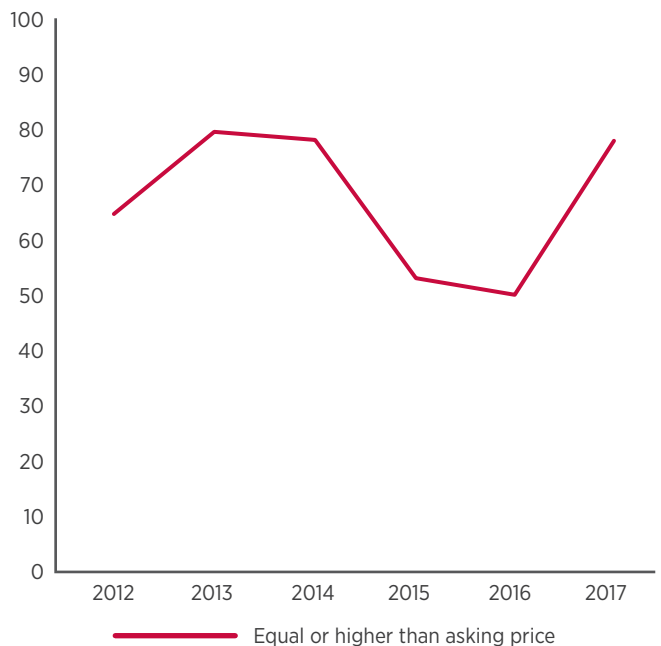


Table 5 Estimates of top 25%, bottom 25% and average prices for arable and pasture farmland by region (£/acre)

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 2017	Arable			Pasture		
	Bottom 25%	Average	Top 25%	Bottom 25%	Average	Top 25%
Highlands and Islands	2,750	4,500	7,000	1,000	2,250	2,750
Lothians	4,250	7,000	12,000	1,500	2,500	4,500
Central Scotland	4,000	6,500	8,500	1,500	3,000	4,000
North East Scotland	3,000	6,250	8,000	1,000	2,000	3,000
Scottish Borders	3,250	6,500	9,000	1,000	2,000	3,750
South West Scotland	3,000	4,000	7,000	1,500	2,750	3,500
West Scotland	3,000	4,000	5,250	1,500	2,500	3,500

Market Outlook

We are cautiously optimistic about the farmland market in Scotland during 2018. We take an educated opinion on the possibilities which may unfold, founded on our experiences gained in 2017 and previous years.

Some comfort can be taken from the recent announcement made by the Environment, Food and Rural Affairs Secretary, Michael Gove, who stated that farm subsidies (with the exception of very large farms) will continue for five years post-BREXIT until March 2024.

A future subsidy system, more suitable for the UK, will be largely based on public and environmental merits, such as woodland planting, access to the countryside and the creation of wildflower meadows, rather than on a pounds per hectare basis. The intention of the transitional period is to allow farmers time to adjust their businesses to these impending changes.

Despite the certainty that this provides to revenue streams, the supply of farms will continue to be restricted pending BREXIT negotiations surrounding trade and food security, and until the replacement scheme details are unveiled.

In 2017 commodity prices remained stable and are not expected to change significantly in 2018, with the exception of lamb and milk prices which may increase (see table below). These predictions below could increase due to the recent government announcements on farm subsidies, instilling confidence in the industry.

It is probable that the capital taxation benefits of owning farmland, for Inheritance Tax and Capital Gains Tax, will remain unchanged, thus continuing to encourage demand from rollover buyers from outwith agriculture.

Table 6 Agricultural commodity prices in 2016, 2017 and 2018.

	December 2016	December 2017	A year ahead
Arable crops (£ per tonne)			
Beans	141	144	150
Oilseed Rape	339	294	284
Feed Barley	100	132	132
Milling Wheat	140	148	150
Feed Wheat	127	143	143
Livestock (£ per kilo dead weight)			
Beef cattle	3.85	3.92	Remain stable
Lambs	3.98	3.97	Possible increase
Milk (per litre)	21.70 (Sept 16)	30.13 (Sept 17)	Possible increase

Sources:

Arable crops: AHDB & *Farmers Weekly*. Prices are ex farm. Future prices are indicative bids from agricultural traders. Livestock: *Farmers Weekly*. Beef R4L



‘Farm subsidies will continue five years post-BREXIT.’

Conclusion

Our analysis of the farmland market is a key plank in enabling us to make predictions for 2018. A summary of the positives we can draw from and report include:

- The market was remarkably active at the end of 2017, and set an optimistic start to 2018.
- Demand is expected to remain resilient, exemplified by the fact that we have buyers on our books from Scotland, England, Northern Ireland, Europe, and further afield.
- Farms with good buildings and infrastructure, those with a substantial acreage and inclusive of prime arable land are likely to continue to be favoured.
- The outlook for commodity prices and farm subsidies is stable, and is expected to support the continuation of current land values.
- Expected limits to supply, caused by impending reform, reinforce our view that demand and prices will remain close to current levels.
- Continuing tax benefits will encourage sustained investment from farming businesses and parties outside the industry.



'Limited supply caused by impending reform suggests demand and prices will remain close to current levels.'

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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. 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 asking prices, and so is a more accurate reflection of actual market conditions as asking 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 has concluded missives, 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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