

# Market in Minutes

## Agricultural Rent Survey

### Year to 30 April 2016

November 2016

#### Agricultural rents are still increasing

Rents reviewed in the year to 30 April 2016 increased 11% on average in England and Wales. However, the picture is more complex; both the volume of reviews conducted and the average percentage change in rent have been dropping for three years. Together this means the rate of rental growth has slowed considerably.

The majority of rent reviews in our survey were triggered by landlords; rent review notices from tenants remain rare. Over 95% of rents were settled through negotiation between the landlord and tenant or their representatives. In 3% of reviews an arbitrator was appointed but not used; this was most likely to allow negotiations to continue. Less than 1% of the rents were an arbitration decision.

#### More rents standstill or fall

An increase in rent was agreed in 88% of reviews. Whilst this is still the majority, it is 10% less than the previous year. The proportion of standstills increased from 1% to 9%, meaning the parties will typically not be able to revisit the holdings rent for three years. Agreeing a reduction in the rent was also more common – last year 1% of reviews were settled with a rental reduction, whilst in 2016 nearly 4% were.

Over the three years leading up to April 2016, the prices of many farm outputs have fallen (Figure 1) but the cost of many inputs have also fallen. This means when deciding whether to serve a rent review notice, the landlord or tenant need to weigh up the economics of the farm or land and equivalent market rents carefully.

#### Variation by tenure and farm type

The AHA reviews which have been concluded, resulted in a smaller average change in rent than in 2015. In 2016 the average rent review result was a 9% increase, compared to 15% in 2015; and it was also lower for each individual farm type (Figure 2). Livestock rents are still increasing the most and this is true in all regions. The rate of livestock rent growth is typically higher on poorer quality grazing land.

The same is true of FBT rents, although the average percentage change is larger. The average rent review result in 2016 was a 15% increase, compared to 21% a year before. The distribution of AHA and FBT rent review agreements is presented in Figure 3; considerable variation can be seen around the averages.

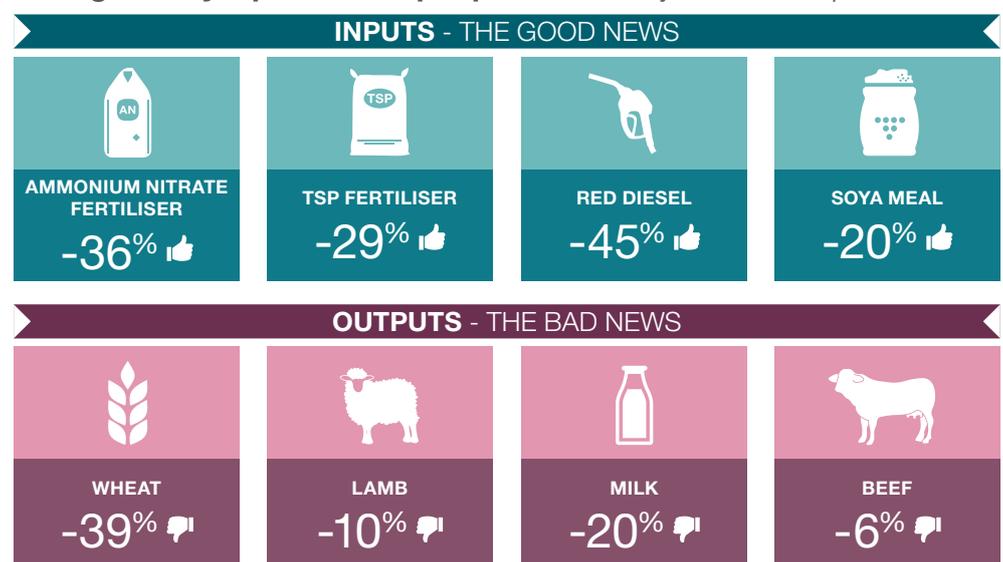
#### New Farm Business Tenancies

Where new tenancies were agreed, on average rents increased by more than achieved by rent reviews. This will be as some of the new tenancies were offered by open market tender. Exposure to the market generally leads to a higher increase in rent relative to the previous letting. Overall new tenancy rents in 2016 were 18% higher than the previous letting, which compares with a 15% increase for FBT rent reviews. Savills let over 9,000 acres on new FBTs in 2016, 17% of the lettings were over 200 acres and there were 18 equipped farms let.

By all agents, 22,800 acres of land to rent on FBTs were advertised in the main national agricultural publications and on property portals in England and Wales. This is less than in 2015 when 27,100 acres were marketed.

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FIGURE 1 **Change in key input and output prices: Three years to 30 April 2016**



Source: Savills Research

➔ **Outlook**

The Government has guaranteed that Basic Payment income is protected until 2020 and Countryside Stewardship income until agreements expire. In the short term, Brexit's impact on rents will be felt through the exchange rate.

Since April, finished cattle, milk, wheat, oilseed rape and pig prices have increased. The weakening of the pound has played a significant role in this, and has also boosted the pending 2016 Basic Payments by 16.5%.

On the other hand, the weak pound could work against farmers, increasing the cost of imported goods such as soya meal, fuels and fertilisers, although fertiliser prices are currently down on last year.

Whether these factors have a positive or negative impact on the earning potential of a holding, or a farmer's attitude towards a rental tender, will vary according to the balance of enterprises and types of production system they are using.

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 "The rate of rental growth has slowed"  
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**Andrew Teanby, Savills Research**  
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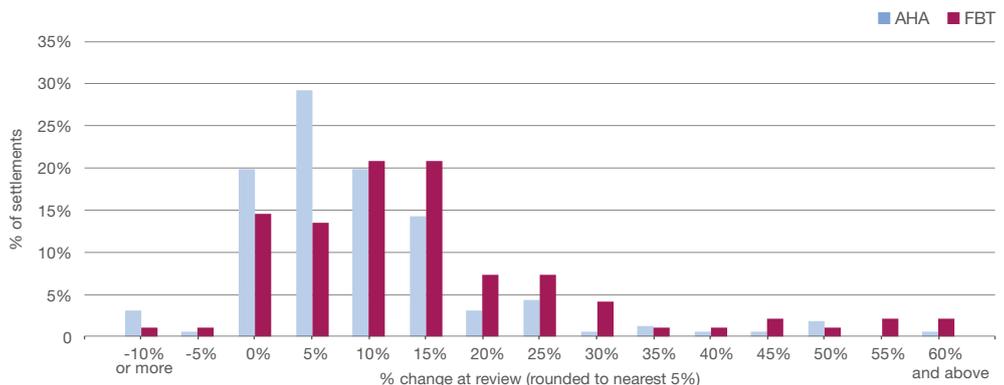
**FIGURE 2**  
**Average percentage change by tenure and farm type in year to 30 April 2016**

		Average percentage change	Area reviewed (acres)
AHA	Arable	6%	14,305
	Dairy	7%	2,269
	Livestock	14%	33,136
	Mixed	7%	14,528
<b>AHA average</b>		<b>9%</b>	<b>64,238</b>
FBT	Arable	13%	8,274
	Dairy	n/a	583
	Livestock	19%	9,756
	Mixed	11%	3,431
<b>FBT average</b>		<b>15%</b>	<b>22,044</b>
<b>Overall average</b>		<b>11%</b>	<b>86,282</b>

Source: Savills Research

**NOTE**  
 For brevity the 'Year to 30 April 2016' is referred to as '2016' in this document, and '2015' refers to the 'Year to 30 April 2015'.

**FIGURE 3**  
**Distribution of AHA & FBT rent review results in year to 30 April 2016**



Source: Savills Research

## Savills Agricultural Rents team

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