

# Market in Minutes

## Agricultural Rent Survey

### Year to 31 October 2015

June 2016



## SUMMARY

Rents continued to rise but the rate of increase has slowed

- Our Agricultural Rent Survey shows that in England and Wales the rate of growth in agricultural rents to 31 October 2015 continued to slow, a trend first highlighted in 2012.
- The reduced rate of rental growth combined with a reduced volume

of reviews are the consequence of pressure on farm profits.

- Competitive open market tenders continue to deliver the highest increase relative to the previous letting, however, enthusiasm for exceptionally high FBT tender rents has been tempered.

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“Our preliminary analysis of spring 2016 reviews suggests the downward trend has continued”

Andrew Teanby, Savills Research

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## → RENTAL GROWTH CONTINUES TO SLOW

Our Agricultural Rent Survey shows that in England and Wales<sup>1</sup> the rate of growth in agricultural rents to 31 October 2015 continued to slow, a trend first highlighted in 2012 (Figure 1). Average settlements for all Agricultural Holdings Act (AHA) rent reviews peaked at 22% in October 2012 subsequently reducing to 16% in the year to 31 October 2015. For Farm Business Tenancies (FBTs) average rent review settlements peaked at 36% in October 2012; in the year to 31 October 2015 the average was lower at 22%.

This easing of the rate of rental growth is understandable, since Autumn 2012 average wheat prices have reduced by 48%, lamb by 15% and milk by 12%, whilst beef prices have increased by just 2%. The decline in income has been partly offset by lower prices for some key farm inputs such as fuel (-39%) and fertiliser (-23%). Overall, profitability has fallen with Defra's recent Total Income From Farming figures showing a 29% decrease between 2014 and 2015<sup>2</sup>.

As a consequence we are seeing both the size of rental increases dropping and a reduced volume of reviews being conducted. Our preliminary analysis of spring 2016 reviews suggests that this trend has continued.

In the year to 31 October 2015, 94.8% of the rent reviews Savills agreed resulted in a rental increase, with 3% unchanged and 2.2% resulting in a decrease.

It remains rare for arbitrators to be involved in settling rents. Over the past five years arbitrators have been appointed for 5.6% of the reviews where Savills was involved and generally this was because one of the parties wished to extend the negotiation period. In just 0.3% of cases the rent was set by the arbitrator.

The frequency of rent reviews has some impact on the size of increase. If we calculate an annual change by looking at rents that were reviewed both this year and three years ago, for AHAs they have risen by an average of

14%, which is equivalent to 4.7% per year, and less than the average for all AHA rents settled in the 12 months to October 2015. The FBTs which were last reviewed three years ago rose by 20% or 6.7% per year.

Despite this rental growth the income return on let land remains low; in 2015 on average landlords achieved a 1.3% return on their capital employed.<sup>3</sup>

### Rents for existing tenancies

Savills settled rent reviews on over 112,000 acres in the year to 31 October 2015. Average FBT rents rose by 22% compared with 16% for AHA tenancies. For both FBTs and AHAs, livestock farm rents continued to increase

particularly strongly in percentage terms. For arable farm rents, the rate of increase for FBT rents was 20% compared to 15% for AHA lettings. Dairy farm rents increased by less than livestock farm rents, reflecting the fact milk prices (in real terms) have declined to levels last seen in 2007 due to global oversupply and the Russian ban on dairy imports from the European Union. →

**FOOTNOTE:**

- <sup>1</sup> All figures in this report relate to England and Wales and have been produced by the Savills research team unless otherwise stated.
- <sup>2</sup> Source: Defra Total Income from Farming in the United Kingdom: First estimate for 2015.
- <sup>3</sup> Source: MSCI IPD UK Annual Rural Property Index, year ending 31 December 2014.

**FIGURE 1** Average percentage change in rent reviews in year to 31 October



Source: Savills Research

**FIGURE 2** Rent review results by tenancy type in year to October 2015

		New rent (£/acre)	Old rent (£/acre)	Average percentage change	Number of reviews	Area reviewed (acres)
AHA	Arable	£91	£82	15%	100	24,396
	Dairy	£76	£67	14%	28	7,722
	Livestock	£66	£57	22%	89	30,006
	Mixed	£81	£72	13%	88	20,763
	<b>AHA average</b>	<b>£79</b>	<b>£70</b>	<b>16%</b>	<b>305</b>	<b>82,887</b>
FBT	Arable	£142	£118	20%	76	10,479
	Dairy	£128	£93	36%	7	905
	Livestock	£99	£84	22%	83	11,849
	Mixed	£105	£86	25%	32	6,042
	<b>FBT average</b>	<b>£117</b>	<b>£97</b>	<b>22%</b>	<b>198</b>	<b>29,275</b>
<b>Overall average</b>		<b>£94</b>	<b>£81</b>	<b>19%</b>	<b>503</b>	<b>112,162</b>

Source: Savills Research

→ However the data behind the averages can vary widely, depending on individual circumstances, as illustrated in Figure 3. Figure 3 presents the frequency with which AHA and FBT rents increased by each percentage (rounded to the nearest 5%). Although the average increase for AHAs was 16%, the rent on the majority of holdings increased by less than this. FBT rent review results show a much greater variability in rent review results.

### Rents for new farm business tenancies

The average FBT rents in this report are below some of the rents that grab the headlines; this reflects the diversity of holdings and land, and that many landlords consider factors as well as rent when selecting tenants, such as the tenant's business plan, skills and husbandry.

Competitive open market tenders continue to deliver the highest increase relative to the previous letting, however enthusiasm for exceptionally high FBT tender rents has been tempered. Where the land was tendered the average increase was 55%, this is partially as the land may have previously been let on an AHA tenancy, which has a different (lower) basis for setting rent.

Where land was re-let to tenants or not tendered the average increase was 14%, this is mostly due to shorter agreements so the rent is revisited more frequently. Overall, in the year to 31 October 2015 rents

# 12,200

Acres let by Savills on new FBTs in the year to October 2015

# 25K

Acres of land advertised in the farming press in England and Wales

for new FBTs were 19% higher on average than they were under the previous letting of the holding.

Savills let over 12,200 acres on new FBTs in the year to 31 October 2015; the average letting size was 104 acres, 13% of the lettings were over 200 acres, and there were 18 equipped farms let.

There is considerable variation around the rental average. For example, arable farm FBTs averaged £126 per acre, but over 16% of arable farm rents were over £200 per acre, and mostly in the east.

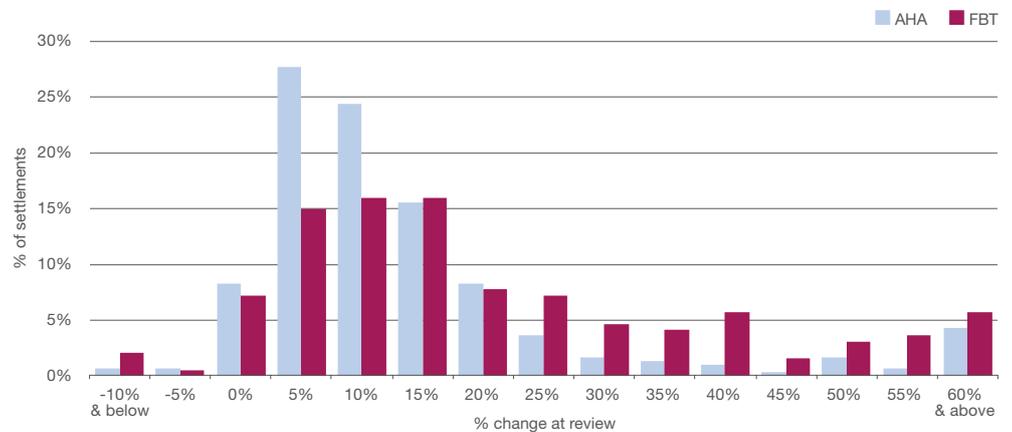
### Farm business tenancies advertised in the national farming press

25,000 acres of land was advertised in the main national agricultural publications and property portals in England and Wales. This is less than in the year to 31 October 2014 when 31,200 acres were marketed. →

▼ Demand remains strong for quality land



FIGURE 3 **Distribution of AHA & FBT rent review results in year to Oct 2015**



Source: Savills Research

FIGURE 4 **New tenancies: FBT rents agreed by farm type in year to October 2015**

	New rent (£/acre)	Old rent (£/acre)	Average percentage change	Number of lettings	Area let (acres)
<b>Arable</b>	£126	£123	12%	63	5,591
<b>Dairy</b>	N/a	N/a	N/a	2	80
<b>Livestock</b>	£94	£84	23%	35	2,980
<b>Mixed</b>	£122	£103	32%	17	3,621

Source: Savills Research

## OUTLOOK

### Dairy and livestock farms are still under pressure



#### Arable land

Last season's exceptional yields left the UK with a larger exportable surplus. Exports have picked up pace since the new year, largely due to sterling weakening against the euro, however a large carryover is likely, which will suppress prices during the harvest period. Globally, grain stocks are high and early forecasts suggest that they will remain high but falls are anticipated later on in 2016/17. Lower fuel and fertiliser prices continue to help offset lower output prices. Demand remains strong for quality land and equipped holdings, especially from farmers looking to spread their costs over local located blocks. Bidders for FBT land are being more realistic, and paying much more attention to budgeted costings than perhaps previously.



#### Dairy

Low world prices and weakened international demand continues to affect the UK dairy sector, where prices have now been in the 23-25ppl range for a year. Many non-aligned liquid contract holders will be selling milk well below the cost of production. The Global Dairy Trade auction on 3 May showed a 1.4% decrease in the GDT price index, following a 2.1% increase on 5 April and a 3.8% increase on 19 April. Overall, the index is 19% below its October 2015 level. We are still seeing a number of producers take the decision to cease production especially if facilities require investment. There is still good demand for well-equipped holdings; rents for FBT holdings remain strong as some farmers see this as an opportunity to expand.



#### Beef and sheep

Farmgate beef prices remain under significant pressure from oversupply, however recent weakening of sterling against the euro has helped the competitiveness of UK product in the EU. Sheep meat production has declined, monthly slaughtering in October to February was all lower than a year previously; but numbers on the ground are higher suggesting a sharp increase in the number of old season lambs remaining to be slaughtered. The breeding flock has not reduced in size so another large lamb crop can be expected so demand will need to rise to maintain current prices. The mild winter should favour the production of quality forage and help keep next winter's ration costs low. We expect reasonable demand for productive lowland units but there will be downward pressure on rents linked to extensive/environmental grazing lettings, especially where stocking rates are limited.

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**Glossary:** **AHA** – Tenancies originally created before 1 September 1995, they have security of tenure and often have succession rights allowing the tenancy to pass to relatives, and due to the rent formula rents are lower than for FBTs. **FBT** – Tenancies agreed on or after 1 September 1995. Parties have greater freedom to negotiate terms, and the rent is normally open market. **TSP** – Triple Superphosphate.