

Market in Minutes

Agricultural Rent Survey

Year to 30 April 2015

2015



SUMMARY

Rents continued to rise but the rate of increase has slowed

■ Rents for all types of tenancy rose by an average of 22% as a result of reviews and new lettings in the year ending 30 April 2015, compared with 28% in the previous year.

■ Rents for existing tenancies rose by an average of 19% at review, composed of a rise of 16% for

Agricultural Holdings Act tenancies and 25% for rent reviews on existing Farm Business Tenancies.

■ Rents for new Farm Business Tenancies rose by an average of 39% compared with the previous rent for the land.

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RENTS RISE AT SLOWER RATE

Our Agricultural Rent Survey shows the rate of growth in agricultural rents has continued to slow.

This trend is not unexpected given that many commodity prices fell during the three years to 30 April 2015: wheat prices fell by 32%, lamb by 4% and milk by 12% although beef prices have increased by 2%.

The full extent of these price reductions has not fed through to farmers' bottom lines as some key farm input costs also fell, so farm profitability, which is one of the factors which influences agricultural rents, has not been as affected.

For example, in April 2015 ammonium nitrate fertiliser was 6% cheaper than three years earlier, TSP fertiliser was 17% cheaper, red diesel was 31% cheaper and soya meal for animal feed was 11% cheaper. When landlords

and tenants are agreeing rents, their negotiations will take account of these factors and comparable evidence.

Our analysis shows that rents for all tenancy types in England and Wales¹ rose by an average of 22% for reviews and new lettings in the year ending 30 April 2015. A year previously this figure was 28% (see Figure 1).

Rents for existing tenancies rose by an average of 19% at review, compared with 24% for the year to April 2014.

For Agricultural Holdings Act (AHA) tenancies, the average increase in rents at review was 16%, compared with 19% a year previously.

Whilst the enthusiasm for exceptionally high Farm Business Tenancy (FBT) tender rents has perhaps been tempered, rental increases for new FBT agreements remain higher at 39% than the average increase from rent reviews, which is 25%.

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.

98.6% of the rent reviews we surveyed resulted in a rental increase,

with 0.7% standing still and 0.7% decreasing.

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, they have risen by an average of 15.8%, which is equivalent to 5.3% per year.

AHA tenancies, the average increase was 13.6% or 4.5% per year, while FBTs rose by 20.9% or 7.0% per year.

Despite this rental growth the income return on let land remains low; for 2014 it was about 1.4% return on the landlord's capital employed.²

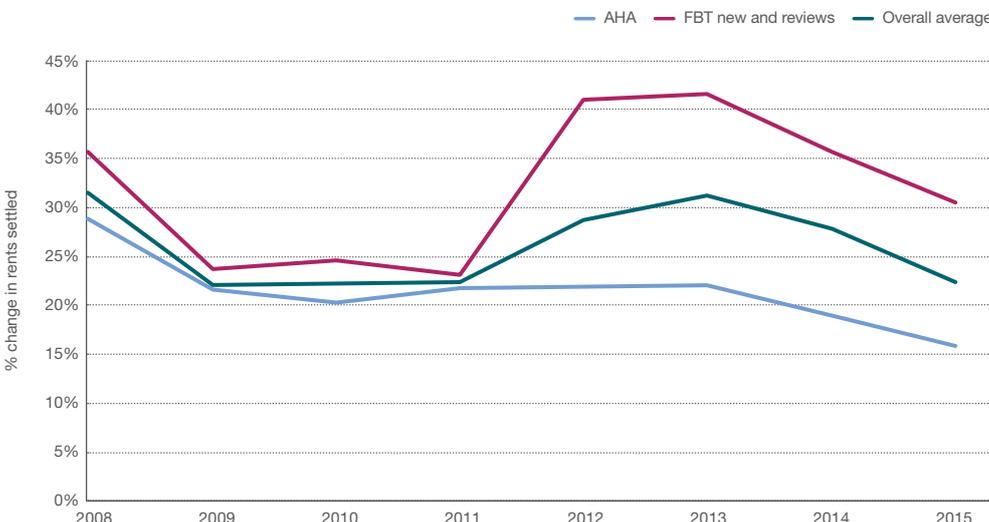
It remains rare for arbitrators to be involved in setting rents. Over the past five years arbitrators have been appointed for 5.4% of the reviews we have surveyed and this is generally because one of the parties wishes to extend the negotiation period. In just 0.3% of cases was the rent set by the arbitrator. ■

¹All figures in this report relate to England and Wales and have been produced by the Savills research team unless otherwise stated.

²Source: MSCI IPD UK Annual Rural Property Index, year ending 31 December 2014.

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 "Rents for all tenancy types in England and Wales rose by an average of 22% in the year ending 30 April 2015"

FIGURE 1 **Average percentage change in rents settled in year to 30 April**



Source: Savills Research

16%

Average increase in AHA rents at review

25%

Average increase in FBT rents at review

98.6%

of rent reviews surveyed resulted in a rental increase

RENTS FOR EXISTING TENANCIES

Farm type

We surveyed rent reviews covering over 69,000 acres in the year to 30 April 2015. Rents increased in all sectors and by an overall average of 19%, which is lower than the 24% average for reviews conducted in 2014.³

Livestock rents increased the most, rising by 23%, but down from 25% in 2014; arable rents rose by 18%, down from 28%; dairy rents increased by 13%, down from 19% in 2014. The rents for mixed farms

continue to increase by less than both predominantly arable and predominantly livestock units. Dairy rents increased the least, reflecting that 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.

Tenancy type

FBT rents rose by 25% compared with 16% for AHA tenancies. For both FBTs and AHAs, livestock rents continued to increase particularly strongly in percentage terms. For arable rents, the rate of increase for FBT rents was nearly double that for AHA lettings. Dairy AHA rents have risen less than other farm types, reflecting the pressures mentioned above. ■

³N.B. This is lower than the 22% increase headline as it excludes rents for new FBTs, which are covered in the 'Rents for New Farm Business Tenancies' section.

⁴The new rent figure shows the average of new rents settled in the period. It should not be used as an average rent for this farm type (or tenancy or region).

FIGURE 2 Rent review results by farm type in year to April 2015

	New Rent* (£/acre)	Old Rent (£/acre)	Average percentage change	Number of reviews	Area reviewed (acres)
Arable	£101	£86	18%	128	26,128
Dairy	£81	£72	13%	33	8,067
Livestock	£90	£73	23%	122	12,512
Mixed	£82	£70	17%	142	22,652
Overall average	£90	£76	19%	425	69,360

Source: Savills Research

FIGURE 3 Rent review results by tenancy type in year to April 2015

Tenancy type		New Rent (£/acre)	Old Rent (£/acre)	Average percentage change	Number of reviews	Area reviewed (acres)
AHA	Arable	£88	£79	14%	90	21,840
	Dairy	£80	£71	13%	30	7,577
	Livestock	£76	£65	22%	63	7,746
	Mixed	£76	£66	15%	104	17,678
	AHA average	£80	£70	16%	287	54,842
FBT	Arable	£130	£104	28%	38	4,288
	Dairy	N/a	N/a	N/a	3	490
	Livestock	£104	£82	25%	59	4,766
	Mixed	£100	£82	23%	38	4,974
	FBT average	£110	£88	25%	138	14,518
Overall average		£90	£76	19%	425	69,360

Source: Savills Research

Note: The full database contains evidence from 4,000 rent settlements covering over 1,000,000 acres of land.



RENTS FOR NEW FARM BUSINESS TENANCIES

Rents for new FBTs are 39% higher on average than they were under the previous letting of the holding, so continue to achieve a higher percentage uplift in rent than the 25% average for FBT rent reviews.

This is partially because the land may have previously been let on an AHA tenancy, which has a different (lower) basis for setting rent.

Of the 13,300 acres of new FBTs which we surveyed in the year to 30 April 2015; the average letting size was 116 acres. The arable lettings averaged 121 acres, whilst livestock lettings averaged 111 acres, and mixed lettings 125 acres. 20% of the lettings were over 200 acres, and there were 23 equipped farms let.

There is considerable variation around the rental average. For example, arable FBTs averaged £139 per acre, but over 15% of arable rents were over £200 per acre, and mostly in the east.

FBTs advertised in the national farming press

27,700 acres of land was advertised in the main national agricultural publications and on property portals in England and Wales. This is a slight decrease on the 29,500 acres marketed in the year to 30 April 2014. ■

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

	New Rent (£/acre)	Old Rent (£/acre)	Average percentage change	Number of lettings	Area let (acres)
Arable	£139	£129	35%	69	8,316
Dairy	N/a	N/a	N/a	2	80
Livestock	£97	£71	48%	31	3,455
Mixed	£188	£104	49%	12	1,505
Overall average	£133	£111	39%	114	13,357

Source: Savills Research

111

average acreage for livestock FBT lettings in the year to 30 April 2015

27K

acres of land advertised on FBTs in England and Wales in the same year

OUTLOOK

Dairy and livestock are still under pressure but there are glimmers of hope



Arable

Many budgets for the 2015 harvest will only be achieved due to the exceptional

yield making up for very lacklustre prices. Some respite has come from lower fuel and fertiliser prices which have helped offset the lower price expectations. Demand remains strong for quality land and equipped holdings, especially from farmers looking to spread their costs over local blocks. Bidders for FBT land are being more realistic, and paying much more attention to budgeted costings than perhaps previously.



Dairy

Falling prices across the world and weakening demand internationally continue

to hit the UK dairy sector. There has been some modest price stabilisation but many non-aligned liquid contract holders will be selling milk well below cost of production. The glimmers of hope in the world market are unlikely to manifest in higher farmgate milk prices until well into 2016. 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 expansion as the only way forward.



Beef and sheep

Farmgate beef prices remain under significant pressure from oversupply and

competition from abroad due to the strength of sterling. Plentiful stocks of quality forage should ease winter ration costs but this is unlikely to make up for the anticipated reductions in support payments through BPS and the possible loss of ELS. Lamb prices continue to be hit by the strength of sterling and weak export demand. We expect reasonable demand for productive lowland units but there will be inevitable downward pressure on rents linked to extensive/environmental grazing lettings.



Pigs and poultry

The fall in grain prices has helped to reduce feed costs for most producers. Demand

for UK produced pigs and poultry has remained relatively strong and alleviated some of the strong export competition. This needs to continue, especially from supermarkets, if UK producers are to keep their market share in the face of strong export competition. Reviews and tenders will need to be considered on a case-by-case basis.

Savills Agricultural Rents team

Please contact us for further information

Rural Research

Andrew Teanby
01522 507 312
ateanby@savills.com

North

Philip Coles
01325 370 511
pcoles@savills.com

Scotland

Toby Metcalfe
0131 344 0885
tmetcalfe@savills.com

Rural Research

Ian Bailey
01797 230 156
ibailey@savills.com

West Midlands & Wales

Stephen Spencer
01543 266 403
sspencer@savills.com

National Farm Agency

Alex Lawson
020 7409 8882
alawson@savills.com

National Management

Rupert Clark
01798 345 999
rclark@savills.com

South West

Simon Derby
01823 445 036
sderby@savills.com

National Agribusiness

Andrew Wraith
01522 508 973
awraith@savills.com

East Midlands & Yorkshire

Johnny Dudgeon
01522 508 952
jdudgeon@savills.com

South East & East

Mike Horton
01473 234 813
mhorton@savills.com

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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.