

Market in Minutes Agricultural Rent Survey

(Year to 31 October 2016)

February 2017

Savills Agricultural Rents Survey shows that, over the past three years, the size of rental increases and the number of reviews being undertaken has steadily fallen. Rent review activity is estimated to be just a fifth of that three years ago.

However, average growth for rent settlements is still positive. Our analysis of rents settled in the year to 31 October 2016 shows that AHA rental growth was, on average, 7% down from the 11% average recorded for reviews conducted in 2015.

The trend was similar for FBTs. Where rent reviews were concluded, the average increase was 15%, which is lower than the 19% average for reviews conducted in 2015. Any weakening in FBT rental growth is tempered by demand exceeding supply due to the scarcity of land available to rent.

Whilst the majority of reviews lead to a rental increase, the proportion of standstills (15%) and decreases (8%) has grown. The sum of these factors means the overall rate of growth across passing rents (annual rental income receivable on a property) has slowed.

The results of our Estate Benchmarking Survey show that, in 2016, average passing AHA rents increased by 4.9% and FBT rents increased by 2.2%. The average FBT passing rental growth on rural estates reflects a proportion of concessionary rental agreements.

“Rent review activity is estimated to be a fifth of that three years ago”

A wide range of results

The data behind the averages can vary widely, depending on individual circumstances, as illustrated in Figure 1 below. Factors such as the presence and quality of dwellings and buildings, soil quality, farm type, location and competition in the local market all affect the outcome of individual rent settlements.

Figure 1 shows the distribution and variation of rent review results. Although the average increase for AHAs was 7%, the rent on the majority of holdings increased by less than this. FBT rent review results show a much greater variability reflecting a wide range of agreements, including high value crops such as field vegetables and salad crops.

The spread of AHA rents across the sectors is much narrower than for FBT rents with average arable and dairy FBTs being over 25% higher than FBTs for mixed and livestock farms as illustrated in Figure 2 (see page 2).

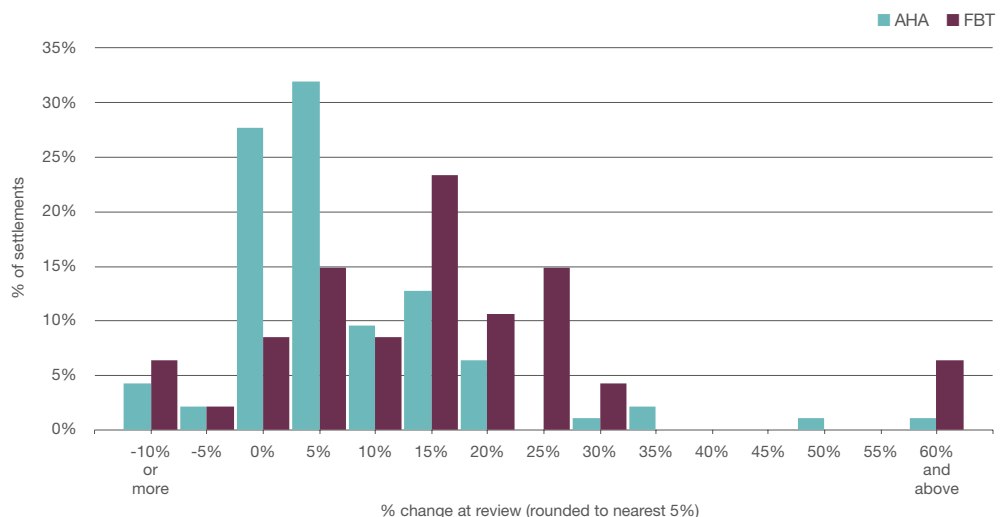
New Farm Business Tenancies

Where new tenancies were agreed, on average rents increased by more than those achieved by rent reviews. Often new tenancies are offered by open market tender, which generally leads to a higher increase in rent relative to the previous letting. There is a surprising amount of resilience in the market due to scarcity of supply.

Rents for new FBTs are 22% higher on average than they were under the previous letting of the holding. →

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FIGURE 1
Distribution of AHA and FBT rent review results:
Year to 31 October 2016



Source: Savills Research

→ Where the land was tendered the average increase was 72%; this reflects the fact that a proportion of this 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 existing tenants, or not tendered, the average increase was 16%.

Advertised FBTs

24,800 acres of FBTs were advertised in the main national agricultural publications and on property portals in England and Wales during 2016. This is similar to that advertised in 2015 when 25,000 acres were marketed. However, there were 5,700 acres of very extensive grazing land in the 2016 figures; if this is excluded the area marketed is 24% lower than in 2015.

There is considerable variation around the rental average. For example, arable FBTs averaged £148 per acre, but over 16% of arable rents were over £200 per acre.

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. The weakening of the pound has played a significant role in increasing output prices and the 2016 Basic Payments.



Conversely, the weak pound could work against farmers, increasing the

cost of imported goods such as soya meal, fuels and fertilisers.

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. However, this positive exchange rate outcome has, at least in the short term, helped to support AHA rental levels. ■

FIGURE 2 Average percentage change by tenure and farm type: Year to 31 October 2016

		Average percentage change	Area reviewed (acres)
	Arable	5%	6,955
	Dairy	4%	1,959
	Livestock	8%	23,732
	Mixed	8%	6,429
AHA average		7%	39,074
	Arable	10%	3,308
	Dairy	n/a	584
	Livestock	18%	998
	Mixed	20%	2,319
FBT average		15%	7,209
Overall average		10%	46,283



Source: Savills Research

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.

FOOTNOTE

For Brevity the “Year to 31 October 2016” is referred to as “2016” in this document, and “2015” refers to the “Year to 31 October 2015”.

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