MARKET IN MINUTES
Savills Research

GB Farmland

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Market activity leads to notable value increases

A slow start has given way to an active private and public market in farmland sales, with notable value increases in amenity and poorer quality farmland.

SUPPLY

There are early signs that the theme of low supply, which has dominated the farmland market in the last couple of years, is beginning to ease. In the first half of 2021, 58% more farmland was publicly marketed than in H1 2020 (although for obvious reasons, that was an exceptional year). Across Great Britain, supply to 30 June is only 8% below the five-year average, which marks a significant swing in comparison to activity in 2019 and 2020. This indicates that previous uncertainties surrounding trade deals and the Agricultural Transition are making way for renewed confidence, allowing farmers to make informed business decisions. There will be some lead in time before this is fully reflected in supply. Notably, the area of land marketed during the first six months of 2021 is 63% of the total number of acres publicly marketed during the whole of last year, which supports the assumption that supply levels will continue to recover.

There is more to the market than meets the eye, however. First, there is a regional disparity in the level of supply. The north of England and Scotland saw large increases in marketed acres in comparison to the six months up to June 2020 (124% and 134% respectively), but the east of England and south-west saw supply fall or, remain close to, record lows (-2% and 6% respectively).

H1 publicly marketed farmland supply for Great Britain

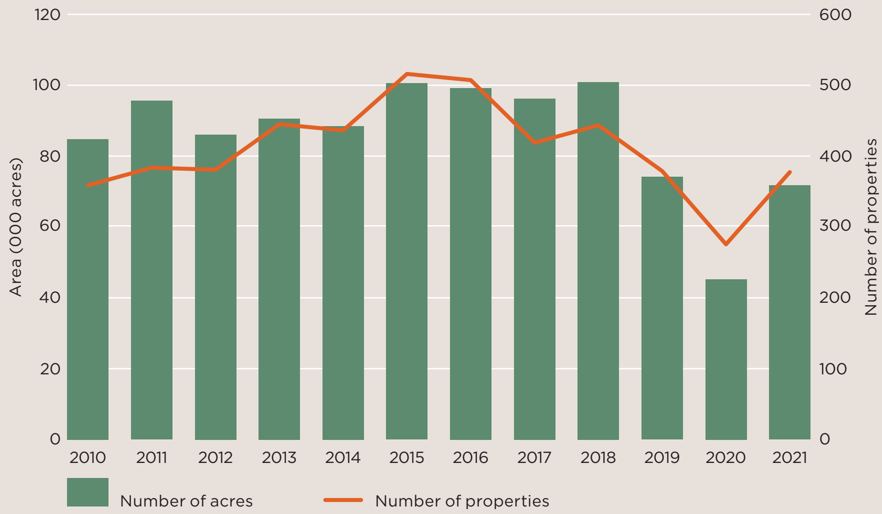

figure 1 **Source** Savills Research

58%
more farmland was marketed in the first half of 2021 than in H1 2020

£6,875
The overall average agricultural land value increased 1.7% during the last six months to £6,875 per acre

Average regional agricultural land value "All land types"

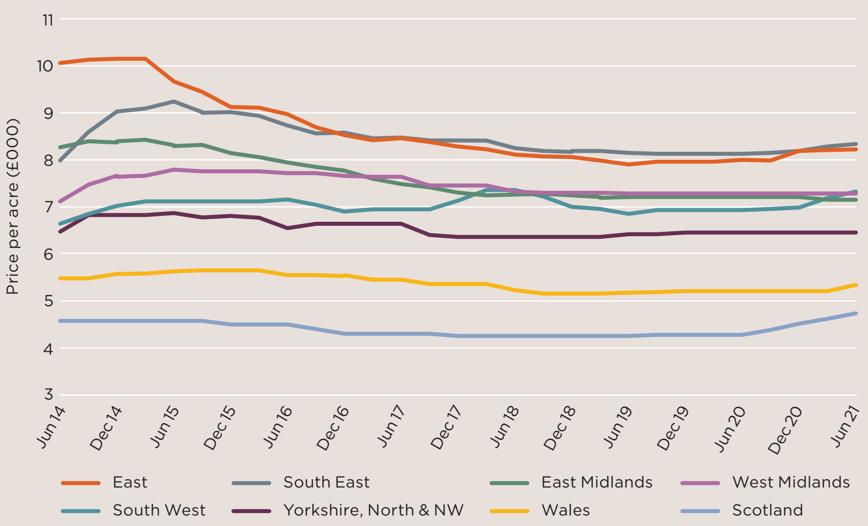

figure 2 **Source** Savills Research

Secondly, our farmland data tracks publicly marketed acres, but we know that the private market remains very active, with a number of deals being struck in the first half of this year. It continues to account for a large proportion of the farms and estates transacted, building on the trend seen last year. Vendors are choosing to market privately where there is a likelihood of special buyers or already sufficient local interest to test the market, knowing it can be marketed publicly if the offers received are not strong enough. Farmers looking to expand their farms locally are making offers well over guide prices in order to prevent the land being marketed more widely. The private market also remains popular for high profile farms and estates, where both the vendor and potential purchasers value privacy.

DEMAND

Based on our applicant numbers, demand for farmland remains strong. The pool of potential buyers is growing more rapidly than before, with 28% more registered so far in 2021 compared to the same period in 2020. There are a number of buyers with rollover funds to invest and commercial farmers seeking quality farms.

As the UK's recovery from Covid-19 continues and →

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an end to restrictions is in sight, the economy is seeing a boost. However, the restriction on international travel is hampering foreign purchasers, affecting particularly the market for large estates where buyers from overseas often compete with the domestic market.

VALUES

The lack of supply over the last couple of years means there is an accumulating number of active buyers competing for farmland that is available to buy. The impact of this is that, generally, values are holding firm or showing slight increases. The overall average agricultural land value ("all land types") increased 1.7% during the last six months to £6,875 per acre. However, a two-tier market is evident in some regions with significant price differences between the best and "the rest".

While all land types saw increases, average livestock and poor livestock types outperformed others with 3% and 3.2% growth respectively in H1. This means that values for average livestock land have almost returned to peak levels last seen in 2015. In part, this may be a result of amenity buyers looking to acquire smaller plots of land fuelled by the desire for more outdoor space following the pandemic. The growth in values for livestock land is particularly focused on the south west. According to Rightmove, Bruton in Somerset saw a 72% increase in buyer searches following Sarah Beeny's *New Life in the Country* airing.

The demand for smaller plots of land (and woodland) with amenity value may see farms and estates siphoning off outlying areas to cater for this market, with the potential to achieve better values than would be obtained from selling larger holdings. With that said, it is expected that the net zero agenda could result in farming businesses being asked to offset their carbon emissions at farm level; these areas of less productive farmland may be of increasing importance to the business itself for carbon sequestration and reaching a net zero target.

MARKET OUTLOOK

When we set our forecasts for the farmland market in December 2020 for the next five years, a great deal of uncertainty remained surrounding subsidy reform plans and the post-Brexit trade environment. With more details emerging in the last couple of months, commodity markets upbeat and Covid-19 shifting behavioural habits, confidence continues to grow.

■ The tapering of the Basic Payment Scheme (BPS) subsidy has allowed more businesses to plan, but there is concern many farming businesses have not stress tested their finances against falling subsidy support. With the "profit margin" of the Sustainable Farming Incentive looking a lot less attractive than BPS, some farm businesses may face financial difficulties over the next few years. The current impacts of the changes are being blanketed by strong commodity prices, however.

■ The planned Lump Sum Exit Scheme to support farmers leaving the industry is expected to have only a minor impact on supply in the next couple of years. It will however trigger discussions among families and with landlords, potentially leading to restructuring and retirements later in the Agricultural Transition period regardless of the scheme. According to a recent survey of our professional land managers, 39% expect owner occupier retirements to become more common and nearly 90% expect AHA tenant retirements to become more common. These may provide opportunities for new entrants, but some will inevitably lead to the sale of farmland.

■ The value for lower quality lowland is increasing, which may be early signs of carbon or natural capital markets impacting values. While the values are some way off their peak, it suggests a recognition of the importance of land to deliver environmental targets and an increase in competition for natural resources.

■ Fears of a hike in the Bank of England base rate to tame growing inflation have eased momentarily. The Bank's Monetary Policy Committee voted 9-0 to retain interest rates at their historic lows, as the expectation is that increases in inflation will be "temporary". This provides some relief to farming businesses with existing debt and those looking to take on debt to restructure and invest.

CONCLUSION

With the additional detail of how the farming industry may look over the next few years, we anticipate that supply will not increase as fast as originally thought. Market outlooks are positive and farmers will take time to process and review how industry changes affect their businesses. Our expectation is that value drivers remain largely unchanged, although amenity land is likely to continue to outperform other farmland this year as we settle into the post Covid-19 pandemic way of life and the environmental agenda encourages further investment into rural assets.

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