

MARKET IN MINUTES

Agricultural Rent Survey (year to 30 April 2017)

Market overview

There was limited change in rents over the past year; rent review activity is at its lowest since the current cycle started a decade ago, as landlords and tenants take stock of the uncertainty ahead. We estimate that the number of reviews undertaken in 2017, represents just 15% of the peak volume in 2013, so on the majority of holdings the rent has remained constant. Across an estate or portfolio rent roll growth is therefore low.

Our 2017 Estate Benchmarking Survey found an average increase of 1.9% in the rent roll for FBT tenancies.

Although less frequent, reviews are occurring where budgets or comparables suggest an increase or decrease is justified. The majority of rent reviews are still being initiated by landlords – 94% were in our 2017 sample. Most of these reviews led to an increase in the rent, although in 18% of cases

a standstill was agreed and in 14% the rent was reduced.

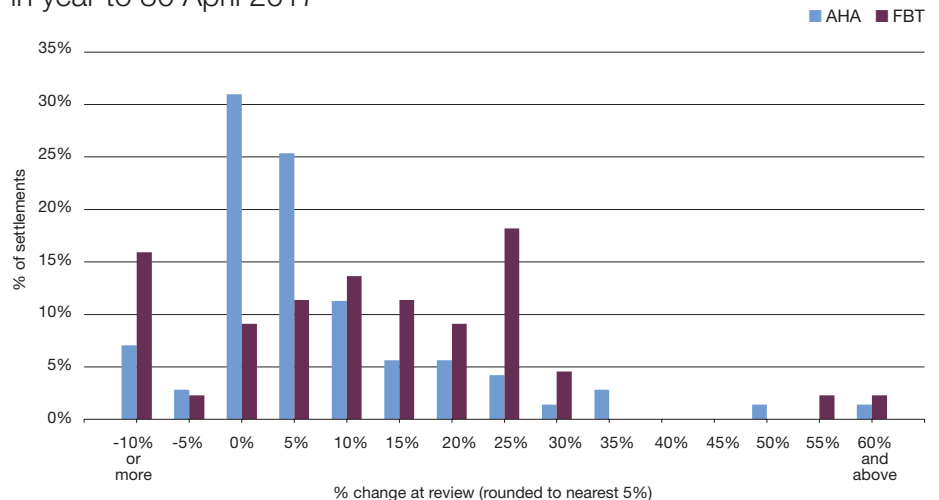
The average outcome for an AHA review was an 8% increase in rent, whilst FBTs averaged 11%. Long durations between reviews are not inflating these average increases. 94% of the AHAs were last reviewed three or four years ago, and the average outcome of these reviews was 7% so varies little from the full sample.

Settlements vary

The range of AHA settlements is relatively close to the average whilst FBT outcomes are more widely distributed (see graph).

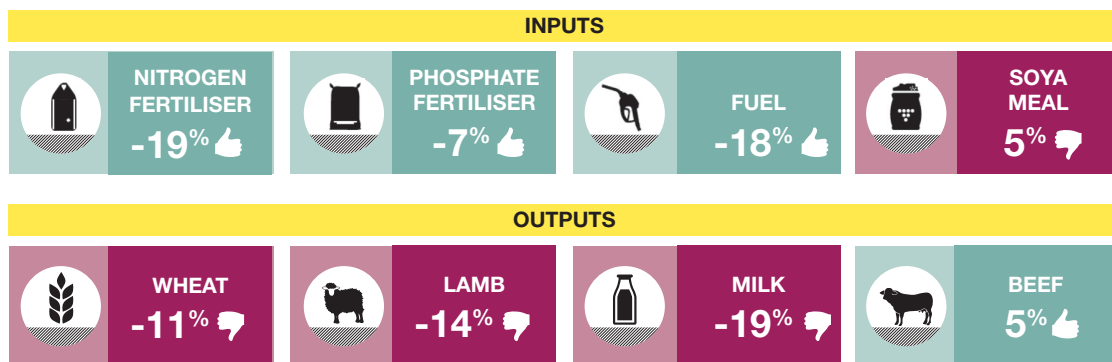
Since 2012 the size of rental increase agreed during reviews has been dropping. This trend continues, with the 2016 average outcomes of 9% for AHA reviews and 15% for FBTs both being higher than the latest statistics. This drop in the rate of rental growth is understandable. Whilst the weakened pound has supported output prices, relative to spring 2014 many are lower; average wheat prices have reduced by 11%, lamb by 14%, milk by 19%, although beef prices are 5% higher. The decline in income has been partly offset by lower prices for some key farm inputs such as fuel (-18%) and fertiliser (nitrogen -19%, phosphate -7%), however soya prices have increased 5%. Farmers' CAP subsidy payments have also increased due to the favourable exchange rate.

Distribution of AHA and FBT rent review results in year to 30 April 2017



Source: Savills Research

Change in key input and output prices – three years to 30 April 2017



New Farm Business Tenancies

Where new tenancies were agreed, rents were on average 15% higher, compared with 11% for reviews. We continue to see good competition for land advertised to let.

Our monitoring of the national market shows that 23,000 acres of arable and pasture land were advertised by agents within national publications and property portals across

England and Wales in 2017. This area is just 2% lower than in 2016, so landlords' willingness to let land has not been affected by the uncertainty surrounding Brexit.

15%
Higher rents where
new tenancies agreed

Outlook

Our Agricultural Rent Survey reports rental trends, but also illustrates that due to the diversity of agricultural land, holdings and enterprises the picture is not consistent. The prospects for rental change need considering on a case by case basis using budgets and comparable evidence. When rents have increased rapidly in the past it has been driven by commodity price spikes.

Global grain stocks have been increasing since 2012 so the prospect of a weather related price spike, such as seen for wheat in 2012/13, is reduced. Within the UK wheat usage for bio-ethanol production has now become more consistent and the supply and demand balance is tighter. This supports domestic prices, meaning the UK is not as dependent on exports as it once was.

In the dairy sector milk prices have been increasing over the past 12 months – the latest data for June 2017 shows a 30% uplift – but they are still below their November 2013 peak. Record butter prices are the dominant

factor driving farmgate prices. Lower EU milk supply is a contributing factor, following incentives to reduce output during late 2016 and 2017. Processors have recently announced consecutive price increases and believe global trends will justify further price gains.

Both cattle and sheep prices are higher than a year ago and this is consistent with global trends. Consolidation activity in the red meat processing sector could lead to efficiencies, although concentrating buying power could weaken market competition.

Encouragingly the sector's export strategy is bearing fruit with a number of new export markets opened in 2017 and exports to key target markets increasing.

Many rents agreed in 2018 will next be eligible for review in 2021, after Brexit. The present Treasury assurances underwrite farm subsidies until 2020 (2019 BPS claim), whilst the Conservative Party manifesto pledged to "commit the same cash total in funds for farm support until the end of the parliament".

Significantly these assurances are given at national budget level and do not guarantee how it is allocated between farmers. However, practically it is expected that a BPS based system will continue after Brexit until the Government has a new policy ready, so the current distribution of support would continue in the short term.

In the longer term support distribution could change materially, depending on the allocation of funding between income support, rural development and environmental measures; and whether policies such as payment size capping are introduced. Environment Secretary Michael Gove has recently said that "the lion's share of support funding should go to farmers to help them to do the right thing environmentally". He has also spoken about productivity and resilience being future policy priorities, and acknowledged the importance of protecting the "human ecology" of upland areas and family farms. At this stage it is difficult to predict what this will mean in economic terms at farm level.

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.

For brevity the "Year to 30 April 2017" is referred to as "2017" in this document, and "2016" refers to the "Year to 30 April 2016".

Savills Agricultural Rents team

Please contact us for further information

East

Mike Horton
01473 234 813
mhorton@savills.com

East Midlands & Yorkshire

Johnny Dudgeon
01522 508 952
jdudgeon@savills.com

North

Philip Coles
01325 370 511
pcoles@savills.com

Scotland

Toby Metcalfe
0131 344 0885
tmetcalfe@savills.com

National Management

Rupert Clark
01798 345 999
rclark@savills.com

Andrew Teanby

Rural Research
Associate
01522 507 312
ateanby@savills.com

South East

Michael Wooldridge
01732 879 052
mwooldridge@savills.com

South West

Simon Derby
01823 445 036
sderby@savills.com

West Midlands & Wales

Stephen Spencer
01543 266 403
sspencer@savills.com

National Food & Farming

Andrew Wraith
01522 508 973
awraith@savills.com

Ian Bailey

Rural Research
Director
020 7299 3099
ibailey@savills.com

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.