MARKET IN MINUTES
Savills Research

GB Farmland

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Supply constrained but market activity increasing

A wetter than average winter delayed the start of the marketing year before an extremely dry spring coincided with the arrival of Covid-19 and the resulting lockdown. Market activity has been understandably constrained over much of this period despite many deals still progressing and completing. An easing of restrictions almost immediately saw an increase in new activity as the market looks to recover from a suppressed first half year.

SUPPLY

Publicly marketed farmland supply remains at an all-time low with year to date offerings 52% down on the same period in 2019 (figure 1). Only 36,600 acres were brought to market for the six months to 30 June, with 47% of that launching in June.

The relaxation of lockdown restrictions and the reopening of the property market in mid-May allowed English regions to progress marketing plans earlier than Scotland, where acres marketed fell 71% on June 2019 figures (*figure 2*). Sizeable declines in supply were also seen across the north of England (56% down) and the south-east (46% down), where many amenity and lifestyle properties were being enjoyed rather than sold by owners.

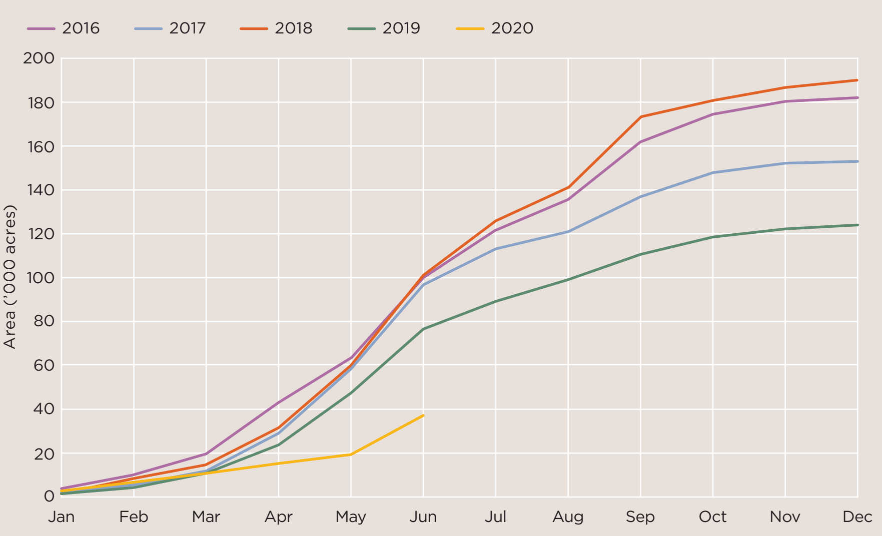

figure 1 **Source** Savills Research

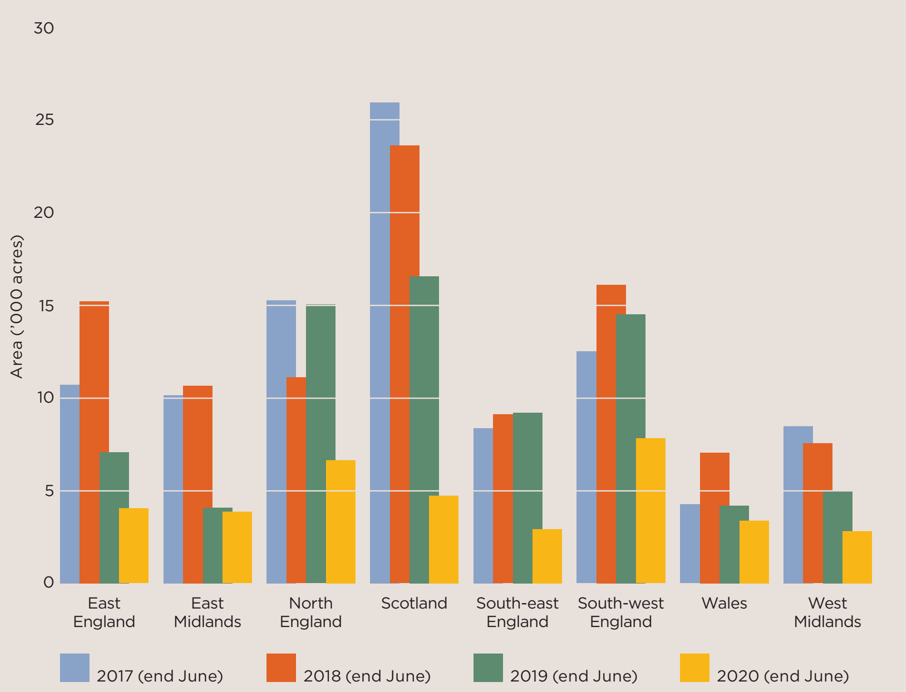

figure 2 **Source** Savills Research

36,600
acres brought to public market for H1 2020

47%
of farmland brought to market in 2020 launched in June

VALUES

Farmland values remained firm for the first half of 2020 with minimal changes across all regions recorded by the Savills Farmland Values survey. Great Britain's average "all types" farmland indicator price increased ever so slightly to £6,690 per acre, a total of 0.5% higher than June 2019. Average prime arable values slipped 0.2% to £8,701 per acre and Grade 3 arable rose 0.25% to average £7,311 per acre. Average Grade 3 grassland remains at £5,384 per acre in Great Britain.

For some time now, tight farmland supply has limited price volatility in our survey. In reality, the market does see a wider range of prices achieved either side of the average as quality, location and sale conditions tend to set relative values. Buyer and seller motives further influence the equation, but it is possible we may see a further scarcity premium paid if farmland supply maintains low turnover rates. →

> "An easing of restrictions almost immediately saw an increase in new activity as the market looks to recover from a suppressed first half"

DEMAND

Demand for lifestyle and amenity farmland continues to surge as analysis of buyer applicant numbers during the second quarter of 2020 shows roughly double the number of registrations compared to the same period last year. Furthermore, website traffic for farms and estates remains 50% above pre-lockdown levels, having peaked at 70% in early June.

"Rollover" demand is expected to remain high particularly as developers look to capitalise on the government's plan to build the economy out of recession. International buyers remain present with unrest and volatility in many other global markets making the stability of GB rural land appealing. However, travel restrictions and quarantine measures have limited the ability to physically view properties for these buyers.

Confidence from commercial farmers is somewhat mixed with some progressive farmers looking actively to expand holdings and achieve scale for the future. On the other hand, extremes in weather patterns and Covid-19 related disruption have negatively impacted farm operating profits for some sectors and may act as a catalyst to bring property to market.

The long anticipated commencement of the agricultural transition period next year suggests many more farmers will be challenging their business and succession plans, and for some realising long-term gains to fuel retirement may be the best opportunity. Logic dictates that more land will be coming to the market as subsidy reforms dig in, and the smart move may well be to accelerate these decisions into a supply-constrained market.

MARKET OUTLOOK

In December 2019, we released our farmland market forecasts up to 2024. Our predictions at the time did not factor in a global pandemic or the impending economic fallout, but as it stands currently the value drivers considered remain largely unchanged in our opinion.

- Brexit trade negotiations and the impending agricultural policy reform continue to be the core influences on commercial farmland values going forward.
- Amenity farmland is expected to be in higher demand now than previously forecast as urban dwellers act on lockdown-induced desires for more green space.
- Interest rates could potentially remain lower for longer than previously thought as central banks will likely be forced to continue quantitative easing measures.
- Recognition of the importance of land in delivering essential environmental services continues to gain rapid momentum.

Overall, the farmland market is expected to remain strong in light of significant global uncertainty and a refocus on domestic food security over the coming months. Low supply should continue to hold values firm and scarcity may well encourage premiums to be paid for the best in class. The sector is however poised for significant change as impending subsidy reform and trade negotiations continue to develop in detail. The government also hasn't ruled out toying with the political football of capital taxation changes, which could impact land buying or selling positions for many.

Time will tell where the balance lies between those willing to progress and adapt and those simply wanting to capitalise on their asset. For those sitting on the fence, strategy discussions are possibly more important now than ever.

- *For more information on our farmland forecasts see: https://www.savills.co.uk/research_articles/229130/295369-0*

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