

Scottish Farmland Market Review

Winter/Spring 2020



Location: Isle of Bute
Price: Offers over £1.4m
Status: SOLD

Market Overview

Welcome to our review of the Scottish farmland market.

During 2019, there was much comment in the English and Welsh media about a lack of farmland hitting the market. Our colleagues south of the border reported that in 2019 the volume of farmland marketed for sale hit a 10-year low with supply down more than 40% on the previous year. The main rationale was due to political uncertainty surrounding Brexit.

In Scotland, despite a reserved first quarter, we did not witness the same dramatic change. Supply, in terms of acreage for sale, did fall and was the lowest in five years (down 32% from 2018). This undersupply was exaggerated due to 2018's record

Continued overleaf.

The market at a glance

Supply

- The number of farms marketed in 2019 was similar to the 5-year average.
- Almost half of the farms marketed were livestock units.
- There was a limited supply of large farms over 500 acres.

Demand

- There is strong demand for both prime arable land on the east coast and hill farms with planting potential.
- Demand continues to exceed supply.
- Farming buyers make up the majority of purchasers for all farm types, with exception of hill farms where forestry investors are most common.

Pricing

- Arable land values in the UK have increased by around 270% in the last 20 years.
- Hill ground which is suitable for afforestation is increasing in value.
- Over the last two years, circa 90% of farms sold around or above their asking price.



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Market overview

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breaking year, when more land hit the market than any other in the preceding decade.

In reality the Scottish farmland market in 2019 behaved in a similar manner to other recent years when uncertainty has been prevalent. In years of potentially significant political change, there is a tendency amongst vendors to be more cautious and less committed to sell. Examples include during 2014, when Scotland voted on independence, and in 2017, following the UK's decision to leave the EU.

The market has always bounced back, and we predict that it will again. However, we do not expect it to do so until clarity is provided on the future of farming, which will allow businesses to make informed decisions.



'...the Scottish farmland market in 2019 behaved in a similar manner to other years when uncertainty has been prevalent.'

Supply

Area of farmland marketed

30,800 acres were marketed for sale in 2019, the lowest volume in the last five years. The last time we saw a lower acreage was in 2014, the year that Scotland voted on independence.

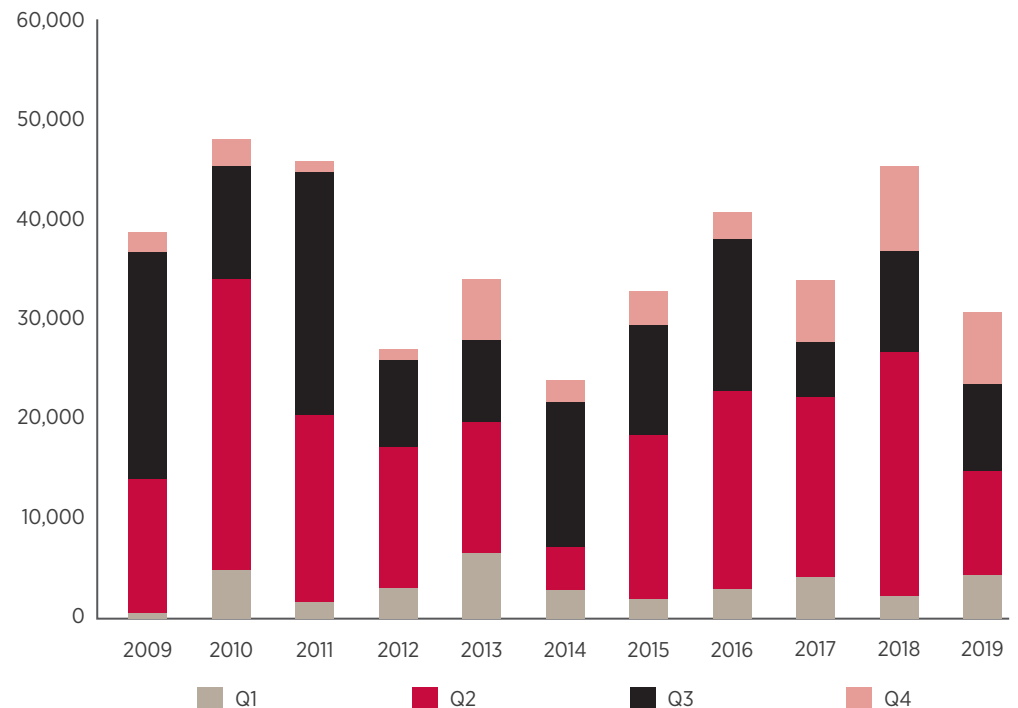
Table 1 Amount of farmland publicly marketed in Scotland (acres)

NB Figures are for whole years and are rounded to the nearest 100 acres. All of the figures on supply or numbers of farms exclude estates, sporting and woodland properties; they also exclude privately marketed farmland due to the difficulty of collecting comprehensive information.

	Highlands and Islands	Lothians	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2015	4,400	1,600	7,500	7,100	6,500	3,800	1,300	32,200
2016	1,200	3,300	10,600	11,400	3,600	6,800	3,900	40,800
2017	5,000	1,100	2,100	8,900	4,000	7,800	4,700	33,500
2018	4,400	4,400	8,200	12,500	1,700	11,200	2,900	45,400
2019	4,900	500	6,700	7,000	1,000	8,800	2,000	30,800
5-year average	4,000	2,200	7,000	9,400	3,400	7,700	3,000	36,100

Figure 1 Amount of farmland publicly marketed in Scotland (acres), by quarter

NB Figures are for whole years unless otherwise stated.



The timing of farmland launched to the market was quite evenly spread across each quarter in 2019, reinforcing an observation we have made in recent years, that the farmland market is becoming less seasonal than it once was.

Number of farms marketed

The number of farms marketed for sale fell by 17%, from 121 farms in 2018 to 100 in 2019, but was in line with the five-year average of 102.

Table 2 Number of farms marketed

NB Figures are for whole years unless otherwise stated. All of the figures on supply or numbers of farms exclude estates, sporting and woodland properties; they also exclude privately marketed farmland due to the difficulty of collecting comprehensive information.

	Highlands and Islands	Lothians	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2015	10	6	26	22	8	11	6	89
2016	6	5	34	38	7	18	11	119
2017	10	3	9	24	8	17	12	83
2018	11	6	29	29	6	27	13	121
2019	9	4	26	23	3	25	10	100
5-year average	9	5	25	27	6	20	10	102

Type of farm

In 2018 arable farms made up around a third of the market; in 2019, only 13% of farms were arable and 46% were lowland livestock farms. Most of the livestock farms were under 370 acres, with approximately half of these being smaller than 200 acres in size. This is a significant change in the type of farm available for purchase.

Table 3 Main type of farms marketed

	Amenity/ Residential	Arable/ Horticultural	Dairy	Hill	Livestock	Mixed
2015	4	29	8	1	33	15
2016	5	39	6	9	35	25
2017	1	19	8	8	24	24
2018	6	38	9	26	24	18
2019	1	13	15	8	46	17
5-year average	3	28	9	10	32	20



‘...a significant change in the type of farm available for purchase’

Size of farm

There was a limited supply of large farms over 500 acres. Only 15% – or 15 farms – were larger than 500 acres, and of that, just three were greater than 1,000 acres.

Reasons for selling

Retirement continued to be the main reason that vendors chose to sell in 2019. A third of farmers chose to sell due to absence of enthusiastic successors to continue the family business, a continuing trend and more obvious in areas of lower productivity where the prospect of farming is less appealing to the next generation.

Other reasons included release of capital, a career change, purchase of higher quality land elsewhere, relocation, non-farming owners wishing to re-invest in other asset classes and non-UK owners worried about Brexit.

Figure 2 Number of farms for sale, by size as a % of all sales

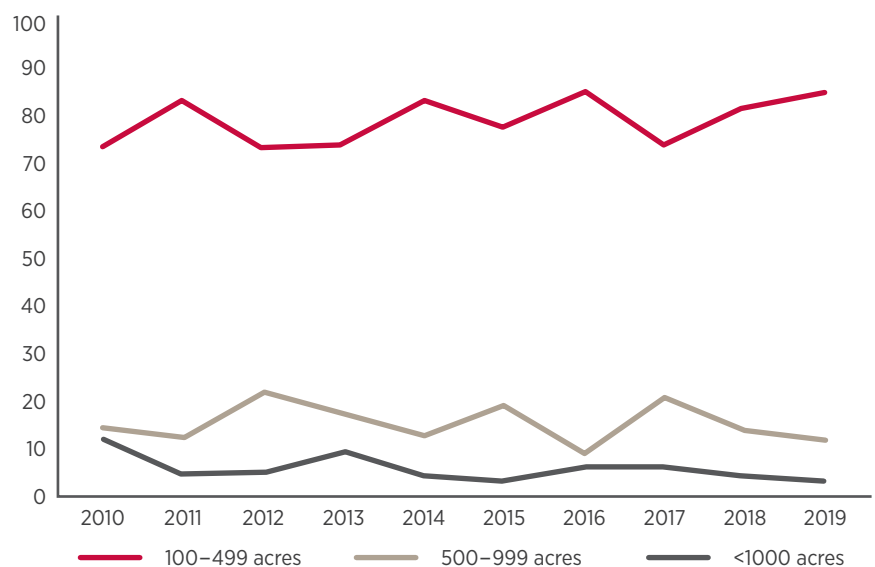
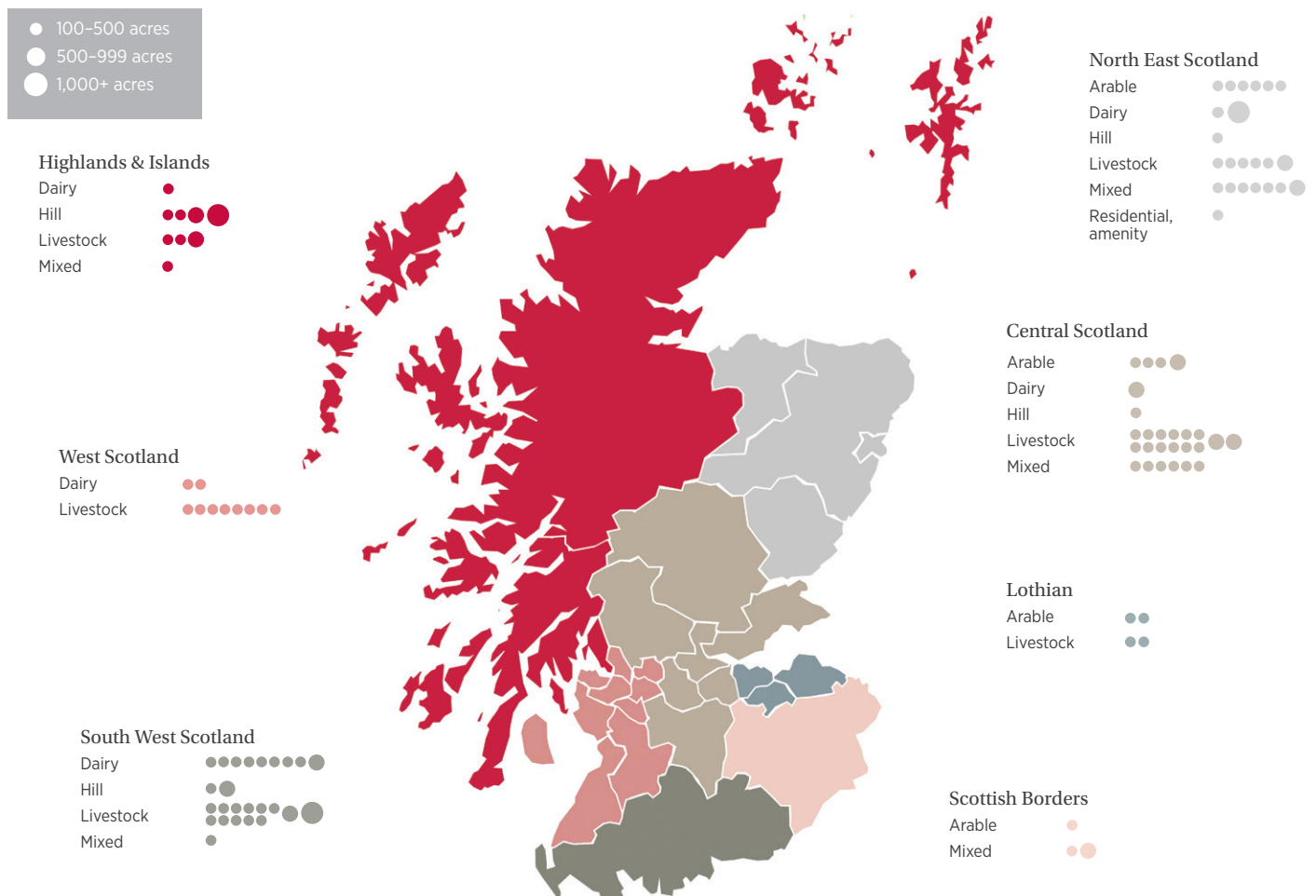


Figure 3 Number of farms marketed in 2019 by region, farm type and farm size



Demand

Area of farmland sold

Demand for farmland remained robust as 2019 performed much in line with preceding years. Of the 100 farms launched during the year, 56% of farms successfully found a buyer by early December, a similar level to the 60% sold or under offer at the same stage in 2018.

Discounting those launched in Q4, there were around 25 farms which failed to sell during the course of the year. These were mostly small units under 300 acres, livestock farms and over two fifths were located in south west Scotland, one of the market's most active regions.

Two thirds of all livestock farms across the country found a buyer and half of the dairy farms marketed were sold. These statistics are unsurprising against the backdrop of our adapting agricultural sector. In 2019 the beef and dairy industries struggled more than others, with reduced prices paid for their products.

With profits for many farm products under pressure, the farms most in demand are those with high quality land; which can produce top 25% yields, and those that are well equipped, with for example: modern grain stores, ambient sheds and livestock facilities, and can easily incorporate modern technologies.



'... 56% of farms successfully found a buyer by early December...'

Figure 4 Number of farms marketed in 2019 by farm type and sale status

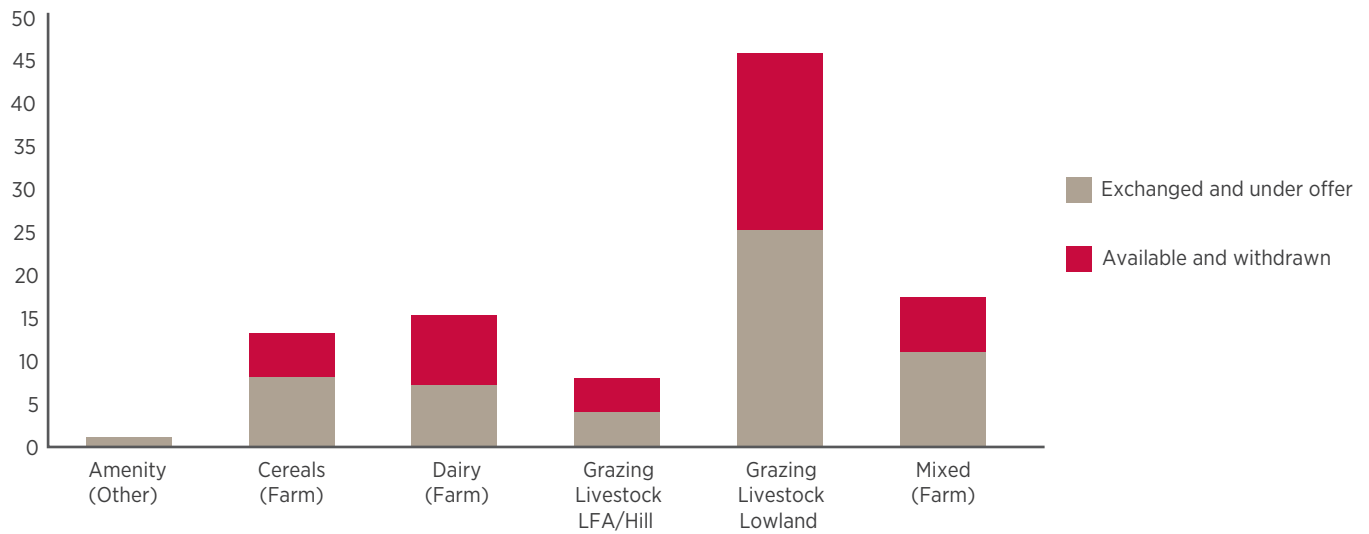


Figure 5 Number of farms marketed in 2019 by farm size and sale status

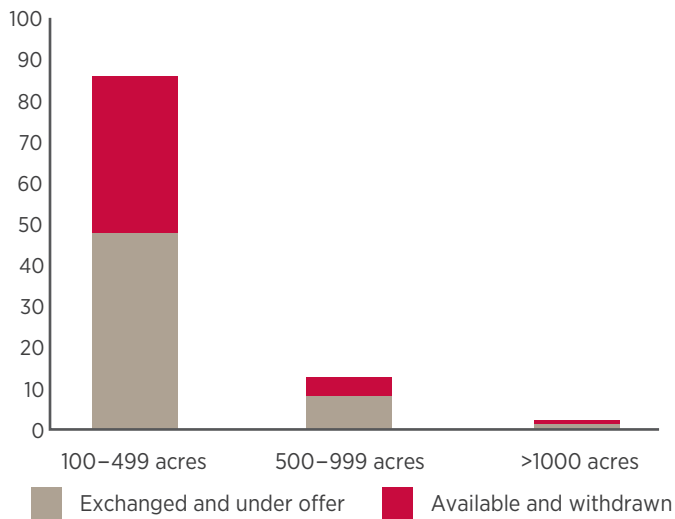


Figure 6 Number of farms marketed in 2019, by asking price bands and sale status

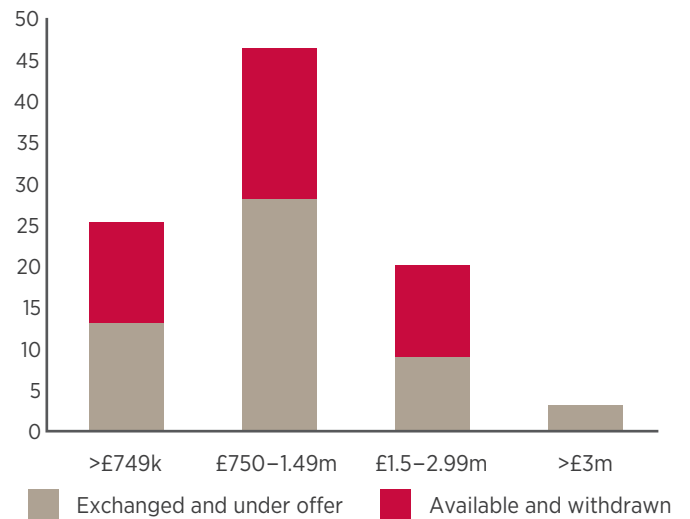
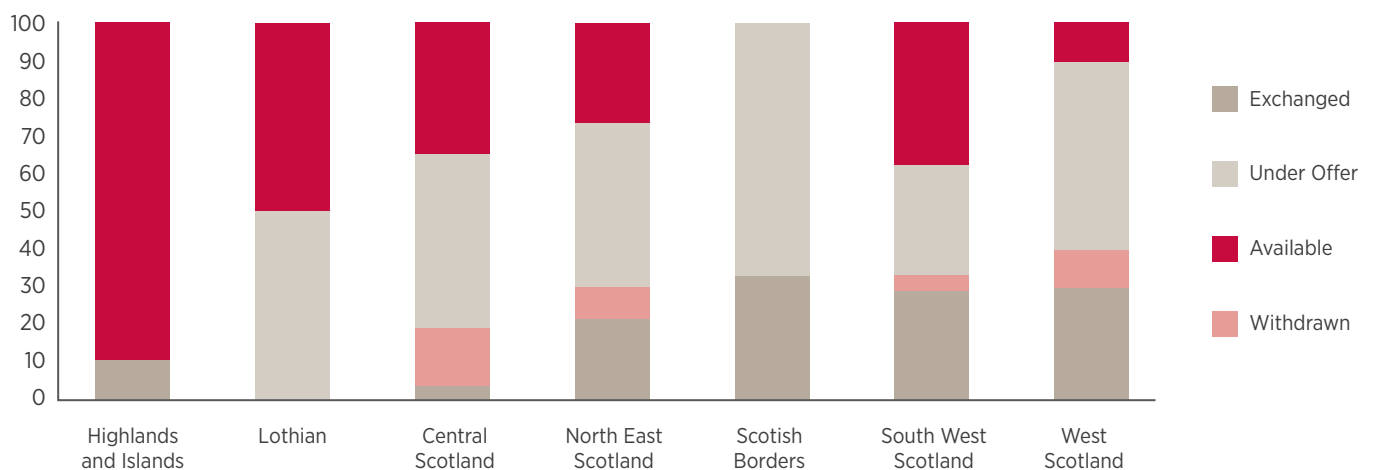


Figure 7 % of farmland exchanged by early December 2019, by number of sales



Types of buyer

On the whole farming buyers make up the majority of purchasers for all farm types apart from hill farms, where forestry investors are consistently outweighing the bidding power of farmers.

There is strong demand for both prime arable holdings in the east and hill farms with planting potential. Mixed units have also fared well during 2019, with the diversity of their income streams remaining popular with purchasers.

Historically Scotland has been a popular investment to those in Europe, Northern Ireland and England. However, in the last year enquiries from Europe have reduced despite the weakened value of sterling.

Interest from Northern Ireland and England has also been more restrained, with some voicing concerns over the increased political uncertainty Scotland faces due to the prospect of a second independence referendum.

Notwithstanding this reduced interest, demand still exceeded supply. There were still many buyers looking to expand their businesses or reinvest roll-over capital during these tentative times. Borrowing is cheaper than ever and land remains seen as a good investment with values largely stable.

Pricing

Despite the uncertainties facing the agricultural industry, demand for farmland remains firm. When compared to other sectors, land is proving to be an attractive investment.

Arable land values in the UK have increased by 268% in the last two decades, which is astonishing when compared with commercial property assets which have increased by an average of 40% and the FTSE 100 which increased by only 13%. Other asset classes demonstrating significant growth during this century include gold at 388% and commercial forestry at an astonishing 533%.

The restricted availability of arable land for sale helped to reinforce arable values. Yet the prices paid for more marginal land, livestock farms and dairy farms declined slightly on a per acre basis, due to supply exceeding demand in some areas and a lack of confidence from buyers in the market.

Highest, lowest and average sale prices

Arable: the best in class, arable acre in Scotland in 2019 realised £16,000, which is similar to the highest values paid in England.

Pasture: values reduced slightly last year. In Scotland, the gap between arable and pasture values is wider than in England, where values of £5,000–£9,000 are achievable. English livestock buyers in particular find that their budget goes further north of the border for mixed, livestock and dairy farms than it does in the south, and the difference in residential values accentuates this.

Hill: With the support on offer from Scottish Government to plant more trees, we are seeing increasing prices paid for hill ground which is suitable for commercial scale afforestation. In only a few years the fierce competition seen amongst forestry investors and individuals wishing to join the booming woodland sector have almost tripled the values achieved for hill ground.

In 2019, unprecedented prices were paid of up to £3,000/acre for plantable hill ground in the most accessible areas, similar to secondary arable ground and grass leys in other parts of Scotland. This increase in demand and the prices paid have made it near impossible for hill farmers to compete for land which has forestry planting potential. The agricultural value of hill ground when unsuitable for forestry planting sits between £200 and £1,500 per acre.

Prime arable: £7,000–£16,000	Secondary arable: £3,000–£7,000	Grass leys: £2,500–£5,250	Permanent pasture: £1,000–£2,500	Rough grazings/hill: £200–£1,500 (if unsuitable for forestry planting)	Rough grazings/hill: £1,500–£3,000 (depending on if plantable)
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All prices per acre

Sales at or above asking price

At closing dates, we noted a reduction in the number of offers received, yet positively the prices of offers remained strong. From our experience over the last two years, almost 90% of farms sold around or above their asking price, a reminder that only two serious prospective purchasers are required to make a sale competitive, and highlighting the need for attractive pricing and a well thought out marketing strategy.



‘The best in class, arable acre in Scotland in 2019 realised £16,000, which is similar to the highest values paid in England...’

Table 4 Estimates of top 25%, bottom 25% and average prices for arable and pasture farmland by region (£/acre)

Data is based on the opinions of our regional agents, as it is not possible to calculate reliable regional values based on the small number of sales in each region. Prices are for vacant arable and pasture land only (i.e. it excludes the value of houses or buildings). Bottom 25% means if 100 farms were valued, the price of the 25th farm from the bottom. The average is the 50th from the bottom (and 50th from the top).

Q4 2019	Arable			Pasture		
	Bottom 25%	Average	Top 25%	Bottom 25%	Average	Top 25%
Highlands and Islands	2,750	4,500	7,000	1,250	1,500	2,250
Lothians	4,000	7,500	12,750	1,500	2,250	5,250
Central Scotland	3,250	6,500	9,500	1,500	3,000	4,500
North East Scotland	3,500	7,000	12,500	1,250	2,000	3,250
Scottish Borders	4,500	7,000	9,000	1,500	2,250	2,750
South West Scotland	2,750	4,000	6,750	1,500	2,750	4,000
West Scotland	3,000	3,500	4,000	1,500	2,000	3,250

Market Outlook

There is no doubt that 2019 has been a difficult year for the agricultural industry, overshadowed by much uncertainty and reducing commodity prices. Yet during this period the farmland market has held up remarkably well. The current number of unknowns facing the farming industry are unprecedented and include fundamentals such as: how the UK is going to trade its produce going forward; whether or not a sufficient workforce will be available to harvest crops; what agricultural policy will look like post 2024; and if future subsidies will exist to support the agricultural sector.

Last year livestock farmers suffered the most. In the beef industry, prices fell to a four-year low, blamed on oversupply. Some auction marts were forced to lower commission rates to their lowest level in 30 years to be more affordable. Similarly, milk production exceeded demand and as a result the price of milk dropped. Towards the end of the year, dairy farmers in the north east bore the brunt of this, with some receiving notices to quit from their milk processors and others informed of a new travel charge to be introduced in 2020. More positively, lamb and sheep prices made small gains with increased exports to Europe.

Throughout all of this, and although negated by reducing grain prices, arable yields were higher than expected countrywide.

For 2020, and those with grain stores stacked full, we optimistically predict that grain prices will rise. The wet autumn has posed significant challenges in terms of potato harvesting, particularly in England. The knock on effect is that the area of winter wheat grown in the UK will be significantly reduced. Whilst this might increase wheat prices, the substituting of planned winter wheat to spring barley will have a negative impact on malting barley prices for harvest 2020. Ultimately future commodity prices across most sectors will be impacted by any trade deals that the UK makes.

With high levels of fragility in the industry, predictions for the year ahead are difficult. If 2019 is representative, it shows that despite tough times the farmland market remains robust.

Therefore, using our crystal ball, we envisage that:

- There will be a continued shortage of supply of farmland, particularly of prime arable land.
- Smaller marginal farms could dominate the market in 2020.
- Values will remain highly variable across counties and farm types.
- Demand will continue to outweigh supply for most types of farm.
- Demand from forestry investors will continue to grow, which will increase values for hill land.

Table 5 Agricultural commodity prices in 2017, 2018 and 2019.

	A year ago	September 2019	A year ahead
Arable crops (£ per tonne)			
Beans	220	177	161
Oilseed Rape	320	328	330
Feed Barley	164	110	123
Milling Wheat	169	141	150
Feed Wheat	162	127	138
Livestock (£ per kilo dead weight)			
Beef cattle	3.85	3.40	Possible decrease
Lambs	3.88	3.74	Possible decrease
Milk (per litre)	30.63 (Sept 18)	28.50 (Jul 19)	Remain stable

Sources: **Arable crops:** AHDB & FW. Prices are ex farm. Future prices are indicative bids from agricultural traders.
Livestock: AHDB/QMS. Beef 4L steers and lamb R3L specification. Future prices from outlook reports
Milk: DEFRA.



‘... despite tough times the farmland market remains robust’

Conclusion

We remain positive that the farmland market will continue to perform well in 2020.

We have a dedicated and specialist farm agency team operating from Banchory, Edinburgh, Inverness and Perth who work all over Scotland. Our knowledge of the market is second-to-none and, with the help of our in-depth Farmland Database, we are able to provide up-to-date and accurate sales and valuation advice on a no commitment basis, to anyone considering a sale.

We look forward to launching some exciting farms and estates for sale throughout Scotland in 2020, both on the open market and privately. If you are considering a purchase, it is important to keep in touch with our team so that we can advise you of sales which may not be advertised to the wider world.

If you are considering purchasing or selling this year, please do not hesitate to contact us. We would be delighted to help.



'... up-to-date, and accurate sales and valuation advice on a no commitment basis...'

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Methodology

All data in this market report is from Strutt & Parker's Farmland Database of privately and publicly marketed farmland over 100 acres in Scotland. This data is for farms only; it excludes estates, which are covered in our Scottish Estate Market Review, and woodland, which is covered in our Forest Market Report published by John Clegg & Co. These figures also exclude sporting property due to its different nature. Our Farmland Database has recorded detailed information on the farmland, buildings and soils as well as buyer and seller profiles since 1996, and so is one of the most comprehensive databases available. What makes it different to other databases is that it records sold prices (i.e. what the farm exchanged contracts for) as well as guide prices, and so is a more accurate reflection of actual market conditions as guide prices can overstate or understate the prices that buyers are willing to pay. The national prices stated in this report are based on sold prices. Once a farm is exchanged, we have assumed it is sold, following HMRC custom. The prices for the regions are based on the opinions of our regional agents as it is not possible to calculate reliable regional figures based on the small number of sales in each region.

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