

# SCOTTISH FARMLAND MARKET REVIEW

Spring 2022

## MARKET OVERVIEW

The farmland market has almost fully recovered after a disrupted 2020, which was plagued by low supply, largely as a result of the Covid-19 pandemic. The increase in the volume of land available to purchase in 2021 is a sign that vendor confidence is returning, although supply is not yet back to where it was in 2019.

Demand for land in Scotland is extremely strong. While agricultural purchasers, for varying reasons, are still the main investors in farmland in Scotland, newer entrants such as forestry and lifestyle buyers are increasing. This has resulted in rising competition in a market where demand already outstrips supply.

The hottest topics of the year centred on the outcome of COP26, which took place in Glasgow at the end of October and early November, during which countries pledged to take measures to become carbon net zero by the middle of this century.

Agricultural businesses are currently being backed by government to become more eco-friendly and are being encouraged to investigate ways to reduce their CO2 emissions. It is likely that future reform to agri-policies will insist on environmentally sustainable practices.

The Scottish Government has ambitious targets for woodland expansion, with the aim of increasing tree cover from the current 19% to 21% by 2032. The annual target is gradually increasing to 18,000 hectares (44,500 acres) by 2024/25. To put this in perspective only

10,600 hectares (26,200 acres) of new woodland was planted in Scotland last year.

In addition to these political goals, individual companies have a growing responsibility to reduce their carbon footprint and become more sustainable. Purchasing forests or land for afforestation/peatland restoration enables them to offset carbon. As a result, we have recently seen companies such as Brew Dog, Standard Life, and Aviva Investors and Par Equity successfully purchase large areas of land in Scotland to meet their ESG (Environmental, Social and Governance) commitments.

Furthermore, motivations including the continuing belief that land is a safe asset to store wealth, the increasing value of timber, potential for new income streams through trading carbon credits and opportunities to enhance landscapes through re-wilding, is further encouraging investment in land.

While there are other challenges, including political and policy uncertainties, fears of increasing interest rates and increasing input costs being faced by farming businesses, have had less of a negative impact on the market than in previous years.

Overall, the unprecedented levels of interest in land in 2021 resulted in the continuation of the robust upward trajectory of land values.

**“... increased competition in a market where demand already outstrips supply.”**

## MARKET AT A GLANCE

### Supply



The amount of farmland for sale increased significantly in 2021, compared with 2020, but remained below the five-year average.



27,300 acres were publicly advertised for sale - up 81% on 2020.



74 farms were marketed – with more farms available for sale in each region.

### Demand



Over 80% of the farms publicly marketed had concluded missives or were under offer by the end of the year – a high proportion.



The number of farms that were withdrawn from the market unsold reduced.



Forestry/ESG purchasers are more prevalent in the farmland market than ever before.

### Pricing



Overall, values for all land types increased during 2021 – a result of demand outstripping supply and growth in the carbon/forestry market.



In the past two decades, prime arable land has increased in value by up to 550%.



The value of hill land suitable for afforestation increased during 2021 with some transactions achieving in excess of £5,500/acre.

## SUPPLY

### Amount of farmland marketed

According to analysis of the Strutt & Parker Farmland Database, supply of farmland for sale in Scotland increased significantly in 2021, compared with 2020 when the market was largely disrupted by the pandemic, and we witnessed an increase in vendors selling land privately.

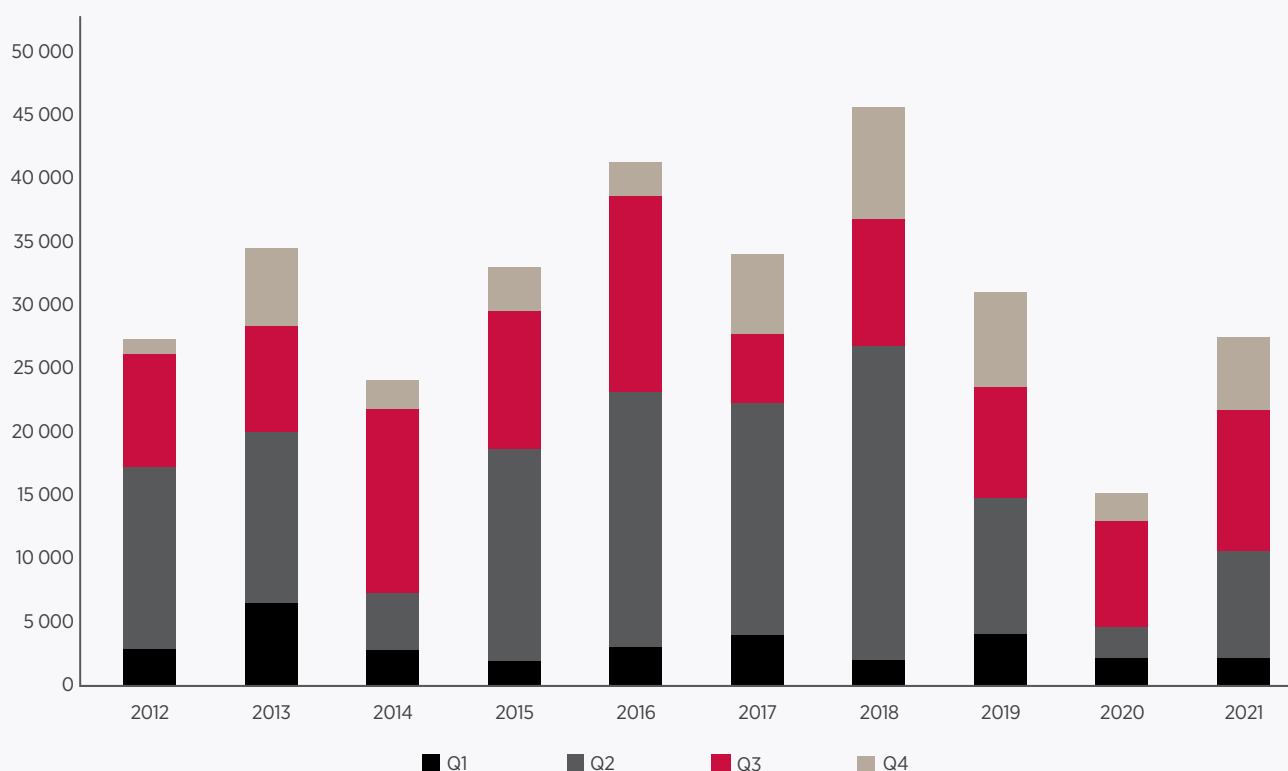
Last year, 27,300 acres were publicly advertised for sale, up 81% on 2020 levels but 10% below the five-year average.

**Figure 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 | Lothian | Central Scotland | North East Scotland | Scottish Borders | South West Scotland | West Scotland | Scotland |
|------------------------|-----------------------|---------|------------------|---------------------|------------------|---------------------|---------------|----------|
| <b>2017</b>            | 5,000                 | 1,100   | 2,300            | 8,900               | 4,000            | 7,800               | 4,800         | 33,800   |
| <b>2018</b>            | 4,400                 | 4,400   | 8,200            | 12,300              | 1,700            | 11,200              | 3,000         | 45,300   |
| <b>2019</b>            | 4,900                 | 500     | 6,500            | 7,200               | 1,000            | 8,800               | 2,000         | 30,800   |
| <b>2020</b>            | 3,700                 | 400     | 900              | 4,800               | 600              | 3,400               | 1,200         | 15,100   |
| <b>2021</b>            | 6,300                 | 1,300   | 4,000            | 6,500               | 800              | 4,800               | 3,500         | 27,300   |
| <b>Five-year ave</b>   | 4,900                 | 1,500   | 4,400            | 7,900               | 1,600            | 7,200               | 2,900         | 30,500   |
| <b>% diff from ave</b> | 30%                   | -16%    | -9%              | -18%                | -51%             | -33%                | 21%           | -10%     |

**Figure 2 Amount of farmland publicly marketed in Scotland (acres) by quarter**



The pattern of farms coming to the market was much closer to normal levels than in 2020, when the first lockdown saw a large reduction in the number of farms launched during the first six months of the year.

More than 11,000 acres were marketed between July and October 2021, which is the largest amount launched during this period for five years.

## Number of farms marketed

In 2021, 74 farms were available – up from 50 in 2020 – and the number of farms for sale rose in each region, which was a positive for buyers, and a huge recovery to the market. However, supply remained below the five-year average of 86 across Scotland, with

only the Highlands and Islands seeing an increase above the five-year average. The busiest areas of the country have not changed, with most farms brought to the market in the north east, south west and central Scotland.

**Figure 3 Number of farms marketed**

NB Figures are for whole years unless otherwise stated. Privately marketed farmland has been excluded 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 |
|---------------|-----------------------|----------|------------------|---------------------|------------------|---------------------|---------------|----------|
| 2017          | 10                    | 3        | 10               | 24                  | 8                | 17                  | 13            | 85       |
| 2018          | 11                    | 6        | 29               | 28                  | 6                | 27                  | 14            | 121      |
| 2019          | 9                     | 4        | 25               | 24                  | 3                | 25                  | 10            | 100      |
| 2020          | 6                     | 1        | 5                | 14                  | 2                | 15                  | 7             | 50       |
| 2021          | 15                    | 2        | 15               | 16                  | 4                | 16                  | 6             | 74       |
| Five-year ave | 10                    | 3        | 17               | 21                  | 5                | 20                  | 10            | 86       |

## Type of farm

There were no real shifts in the type of farms brought to the market; the majority of which continued to be lowland livestock, mixed and arable farms. However, there was a particularly large increase in the number of arable and mixed farms available compared with 2020.

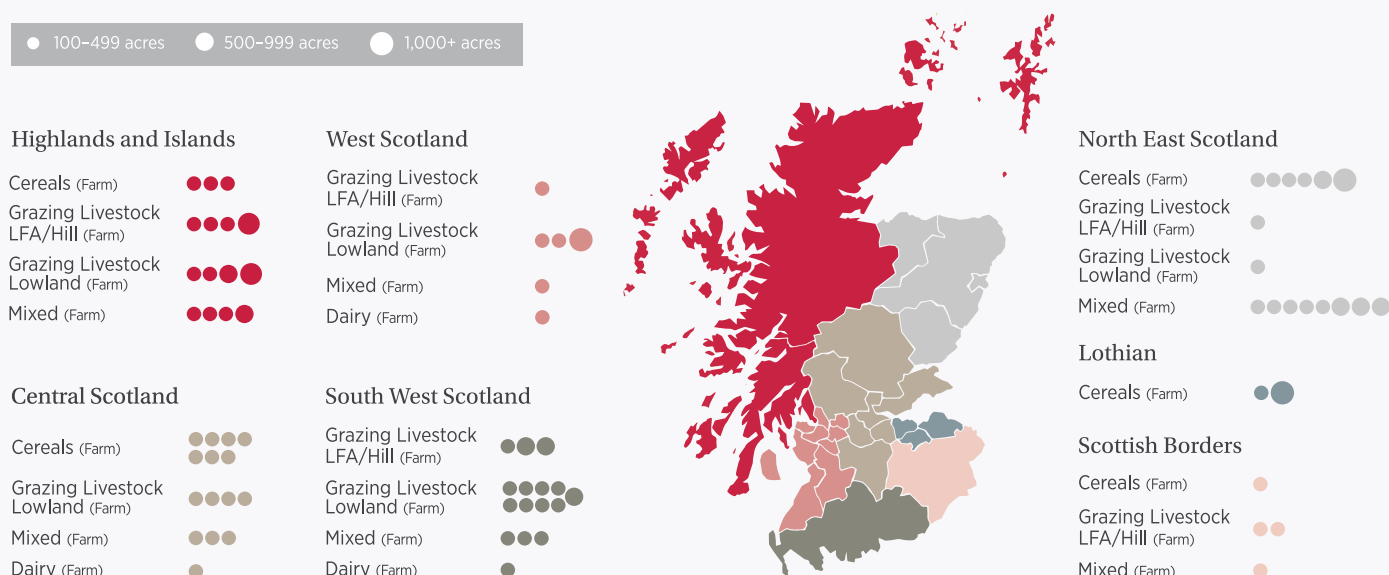
With a slight reduction in hill farms available, we are not surprised to report that forestry/ESG investors have begun pursuing lowland pasture and marginal arable land to deliver their environmental goals through woodland creation and carbon sequestration. We are therefore observing tree planting moving further down the hillside.

**Figure 4 Main type of farms marketed**

|               | Amenity & Residential | Arable/Horticultural | Hill | Livestock | Mixed | Dairy |
|---------------|-----------------------|----------------------|------|-----------|-------|-------|
| 2017          | 1                     | 19                   | 8    | 24        | 24    | 8     |
| 2018          | 6                     | 37                   | 26   | 24        | 18    | 9     |
| 2019          | 2                     | 14                   | 9    | 45        | 15    | 15    |
| 2020          | 2                     | 11                   | 9    | 18        | 7     | 3     |
| 2021          |                       | 19                   | 11   | 21        | 20    | 3     |
| Five-year ave | 3                     | 20                   | 13   | 26        | 17    | 8     |

“...forestry investors have begun pursuing lowland pasture and marginal arable land...”

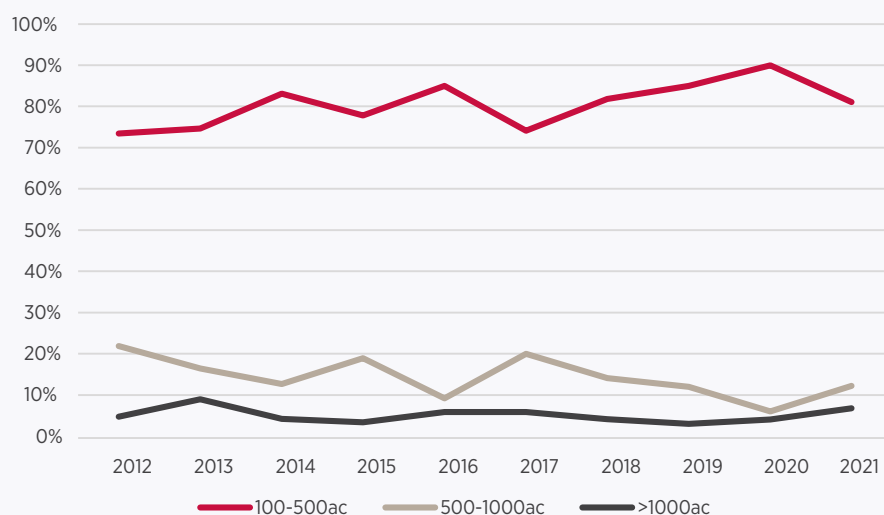
**Figure 5 Number of farms marketed in 2021 by region, farm type and farm size**



## Size of farm

Over 80% of farms available were under 500 acres. There was a limited supply of large farms (19% were over 500 acres), which is in line with the five-year average, although there were more very large farms available in 2021 – five compared with two over 1,000 acres in 2020.

**Figure 6** Number of farms for sale, by size as a % of all sales



## Reasons for selling

From our experience in the farmland market in 2021, the main reasons farms were sold were because of retirement or following the death of a family member. A number of farmers considered early retirement due to the strength of the market and the high prices being paid.

Other reasons for selling included downsizing and to raise capital to reinvest in other asset classes.

**“...farmers considered early retirement due to the strength of the market and the high prices being paid.”**

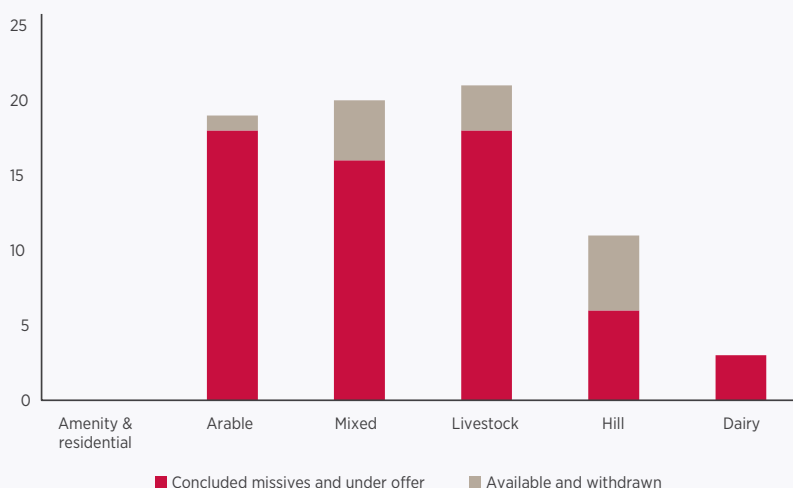
## DEMAND

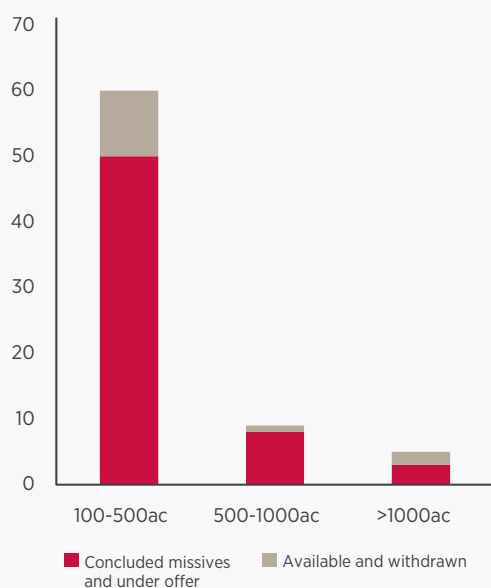
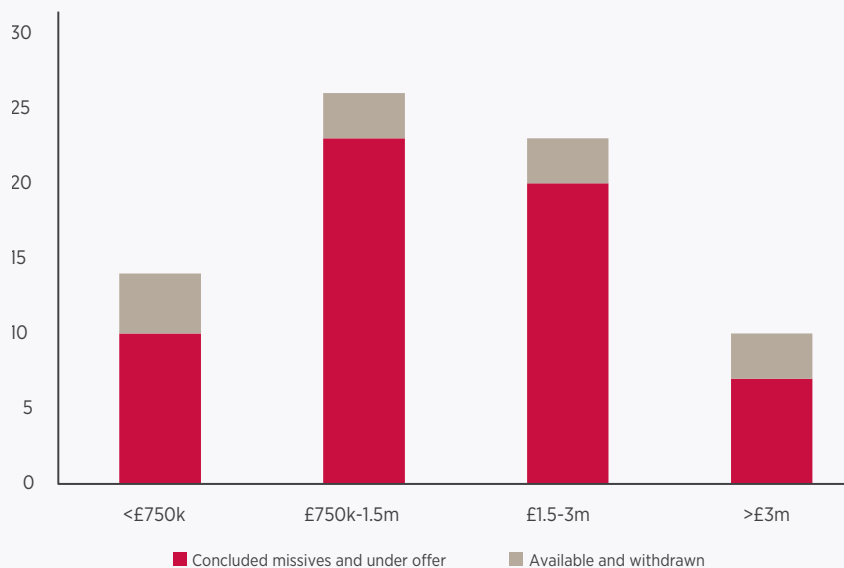
### Area of farmland sold

Over 80% of the farms publicly marketed in 2021 had concluded missives or were under offer by the end of the year, which was the same percentage as 2020.

Farms which remain available to purchase were marketed in the second half of the year and may just need more time to sell. Although demand is strong across all farm types, livestock farms under 500 acres in central Scotland and the north tend to have slightly longer marketing periods.

**Figure 7** Number of farms marketed in 2021 by farm type and sale status



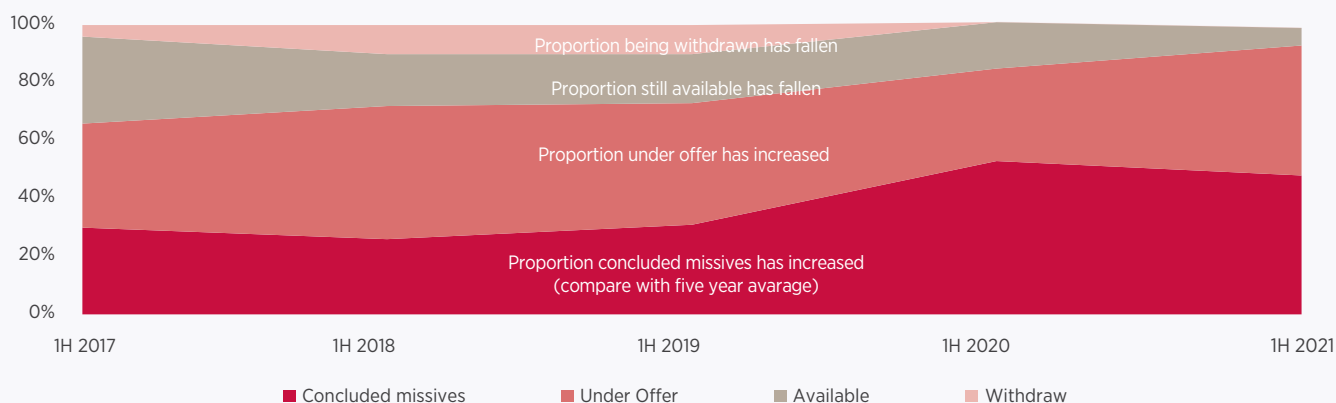
**Figure 8** Number of farms marketed in 2021 by farm size and sale status**Figure 9** Number of farms marketed in 2021, by asking price bands and sale status

Of the farms that were marketed in the first half of 2021, 93% have concluded missives or are under offer, which is a 10-year high.

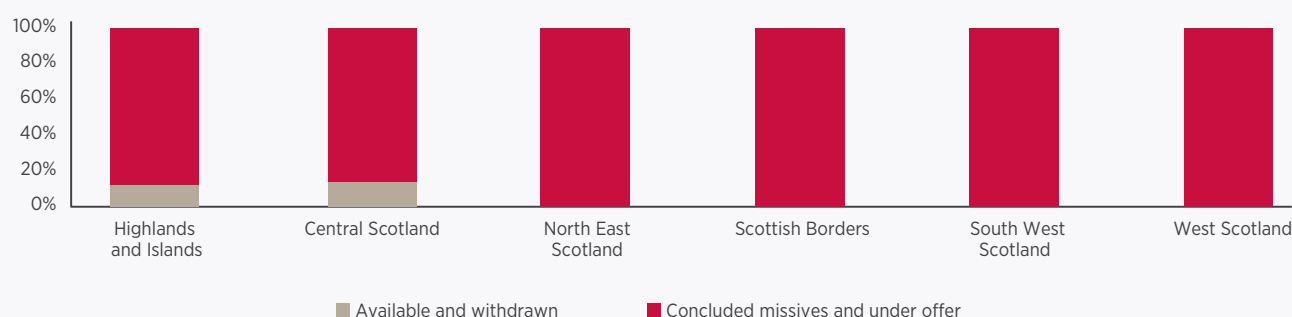
Also, the number of farms that were withdrawn from the market dropped, which is another indicator of a strong market.

**Figure 10** Speed of land transactions - % of farms sold (concluded missives)

N.B. Data shows the sale status by number of sales, not acres. Data captures the sales status of land marketed during the first half of each year, so that the land has had time to sell. Privately marketed farmland has been excluded due to the difficulty of collecting comprehensive information.

**Figure 11** % of farms sold (concluded missives) by region in 2021

N.B. Data shows the sale status by number of sales, not acres. Data captures the sales status of land marketed during the first half of 2021, so that the land has had time to sell. Privately marketed farmland has been excluded due to the difficulty of collecting comprehensive information.



## Types of buyer

Farmer buyers continued to make up the majority of buyers for farms in Scotland during 2021. Yet it is important to note that forestry investors, which were not prevalent in the market as little as five years ago, purchased an increasing number of farms in 2021. Forestry/ESG buyers tend to be most interested in upland and marginal livestock farms, although will now look at arable holdings in more affordable areas where it makes economic sense and provides a return on their

investment. Going forward, we expect it will become more common for marginal arable land to be purchased for afforestation.

In recent months we have spoken to a number of potential purchasers from abroad who are interested in purchasing farmland in Scotland. We expect that overseas purchasers will become more active in the market again as Covid-19 restrictions are eased further.

## PRICING

### Highest, lowest and average sale prices

Values for land in almost all parts of the market have risen.

Arable land values have continued to vary greatly depending on capability and location. Arable land in East Lothian reached record-breaking prices, peaking at £19,500/acre, with strong values for prime arable land seen elsewhere on the east coast. Some values recorded are higher than prices paid south of the border, where our colleagues reported a top arable land value in England in 2021 of £15,800/acre.

Notably this sector of the market is increasingly skewed by development 'roll-over' money, especially in areas of close proximity to expanding settlements. Over the past two decades, the value of prime arable land has increased by a factor of five-and-a-half (550%).

At the other end of the scale, bare hill values with afforestation capabilities continue to increase. The valuation methodology for some hill land, once based on sporting yields of grouse or red deer, is now assessed on forestry, carbon capture and re-wilding potential.

For example, our John Clegg & Co colleagues report hill land, rough grazings and permanent pasture with afforestation potential to have achieved values in excess of £5,500/acre. This uplift in value has to some extent led to increasing values of secondary arable land, productive pasture and lower quality grazings. The trend is proving a double-edged sword as on the one hand many livestock farmers are finding themselves outpriced in the market, but on the flip side farmers are more amenable to selling to these types of purchaser on the basis of the substantially higher price they are often prepared to pay.

Prices: As a guide, the range of values for each land type is stated below, and varies greatly based on location.

The difference in value for rough grazing/hill depending on its capability for forestry highlights the rise in value which the ESG growth has created.

**Figure 12** Range of the values for each land type

| Type of Land            | Prime Arable   | Secondary Arable | Grass Leys    | Permanent Pasture | Rough Grazings/Hill<br>(if unsuitable for forestry planting) | Rough Grazings/Hill<br>(Depending on if plantable) |
|-------------------------|----------------|------------------|---------------|-------------------|--|--|
| Range of Value (£/acre) | 7,000 - 19,500 | 4,000 - 7,000    | 2,500 - 5,500 | 1,500 - 5,500     | 200 - 2,000  | 2,500 - 5,500                                      |

### Sales at or above asking price

In general, land is selling well with competitive bidding witnessed at closing dates and prices above the asking price being achieved for 89% of the sales for which we have data, which is the highest proportion in the past 10 years.

**“... land is selling well with competitive bidding witnessed at closing dates and prices above the asking price being achieved...”**



**Figure 13 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).

|                       | Arable     |         |         | Pasture    |         |         |
|-----------------------|------------|---------|---------|------------|---------|---------|
|                       | Bottom 25% | Average | Top 25% | Bottom 25% | Average | Top 25% |
| Highlands and Islands | 3,750      | 4,500   | 6,500   | 1,500      | 2,000   | 3,500   |
| Lothians              | 5,500      | 8,500   | 15,000  | 1,500      | 3,500   | 4,500   |
| Central Scotland      | 4,500      | 7,250   | 9,250   | 1,750      | 3,250   | 4,500   |
| North East Scotland   | 4,000      | 7,250   | 13,500  | 1,750      | 3,000   | 4,500   |
| Scottish Borders      | 4,500      | 6,500   | 8,000   | 1,500      | 3,000   | 4,000   |
| South West Scotland   | 4,000      | 4,500   | 5,750   | 1,750      | 3,000   | 4,250   |
| West Scotland         | 3,750      | 4,250   | 5,000   | 1,750      | 3,000   | 4,000   |

## LOOKING BACK TO LOOK FORWARD

The predictions we made at this time last year were largely realised during 2021. These included:

- the supply of farmland would recover closer to normal levels
- smaller farms of varying type would dominate the market
- prime arable land would be in short supply
- prime arable values and land suitable for afforestation would command high values.

The farmland market is clearly rebounding, but it has not made a full recovery and therefore pent-up demand is still prevalent. In addition, and despite the vaccine rollout, international travel remained limited by restrictions for most of 2021, delaying the full re-emergence of international buyers.

With farmers still making up the majority of purchasers in the farmland market, it is perhaps surprising that the farming industry is independently facing numerous changes and uncertain times.

Having dealt with both the turbulence caused by Brexit and the impact of the pandemic, the series of difficulties continued for some with another outbreak of Avian Influenza threatening the poultry sector.

Positively, Mother Nature (with the exception of the destruction caused by Storm Arwen) allowed for a nearly perfect growing season and wide harvest window.

Prices for wheat, barley and oilseed rape have held strong due to global supply levels, and the price of malting barley is up from last year. Overall, livestock and dairy farmers also realised more for their produce. Exports have struggled to be competitive with the pound performing better than in recent years (in comparison to the dollar and the euro).

Looking ahead, the need for farms to become climate friendly is likely to be at the forefront of agenda and policy change. Although, we believe that subsidies will continue with the main objective of producing food, businesses will probably have to adapt to a more carbon efficient model in order to qualify. Adjusting could prove challenging whilst trying to maintain yields and remain profitable, especially considering increasing input costs.

We anticipate that some farmers may retire early to avoid change and take advantage of the uplift in market values of land. Yet the majority will embrace change as they have done historically, tackling it head on with innovation, passion and enthusiasm.

We forecast that in 2022 the supply of farmland to the market will continue to grow, that demand will continue to outstrip supply and that buyers from abroad will return. We also predict that ESG/forestry purchasers will increase proportionately and begin to buy more agriculturally productive land which may over time lead to a further increase in the value of arable land.

**“...need for farms to become climate friendly is likely to be at the forefront of agenda and policy change.”**

## CONCLUSION

We are confident that with the strength of land prices, demand and returning vendor confidence, we will witness the market return to, if not exceed, pre-pandemic levels of supply in 2022.

Covering the whole of Scotland our specialist estates and farm sales team, working closely with our forestry colleagues at John Clegg & Co, are well-equipped to offer advice to those considering a sale of farms, bare land and forestry.

We keep a keen eye on the ever-evolving market and can provide you with the most up-to-date guidance based on fresh market comparisons, trends and influences.

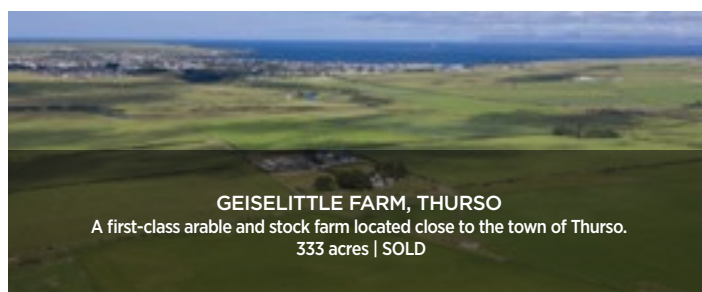
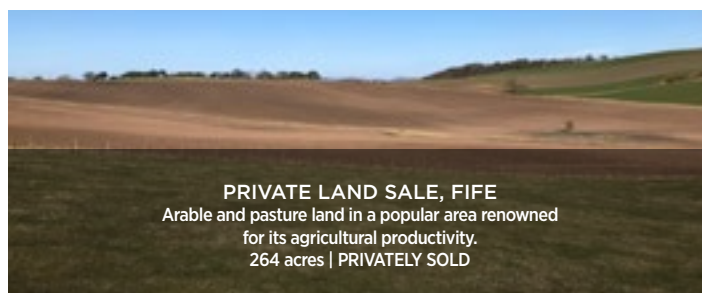
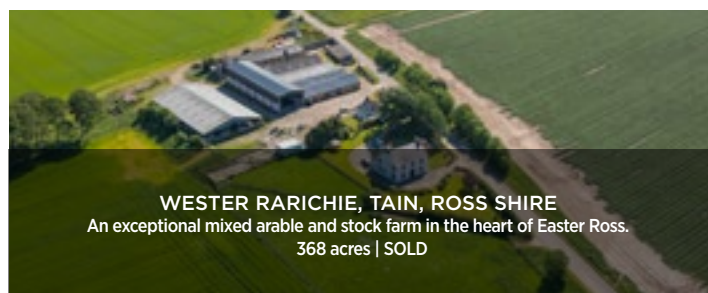
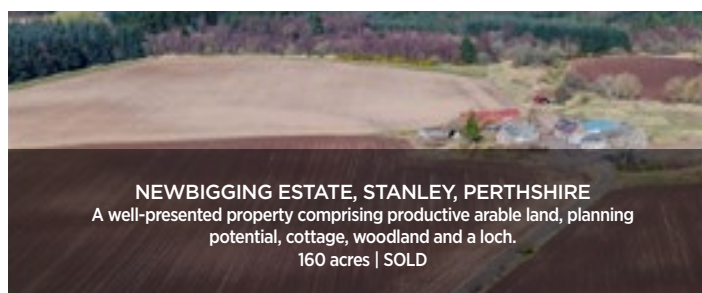
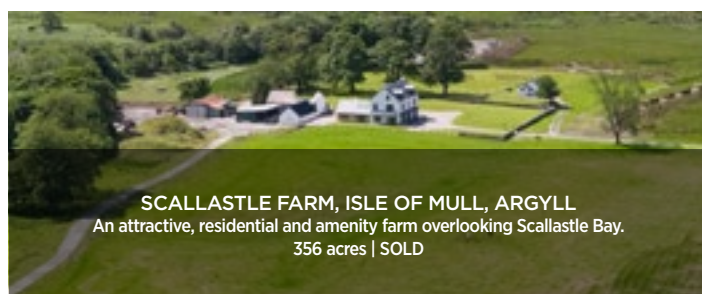
We understand that the decision to sell a farm is never easy, nor made

overnight, and therefore provide no-commitment, confidential advice to assist with decision-making. In addition, our skilled farming team are on hand to provide business performance reviews if necessary, to recommend how businesses can become more profitable. We are always delighted to be part of the conversation no matter the outcome.

We hope that in 2022 we will be able to catch up, meet new faces and enjoy events and agricultural shows together in a much-welcomed return to 'normal'. In particular, we look forward to our return to the Royal Highland Show at Ingliston in June.

Meantime, if you wish to discuss a potential on- or off-market sale, do not hesitate to contact us.

## HIGHLIGHTS OF FARM SALES INVOLVEMENT 2021



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#### Methodology

All data in this market report is from Strutt & Parker's Farmland Database of publicly marketed farmland over 100 acres in Scotland. It 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 concluded missives 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 concludes missives, 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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