

SCOTTISH FARMLAND MARKET REVIEW

Spring 2023

MARKET OVERVIEW

As we predicted, last year the Scottish farmland market made a strong recovery from the lack of supply witnessed throughout the pandemic, despite it being a turbulent year in other ways. In addition, we experienced more vendors choosing an off-market sales approach, which suggests that the recovery was stronger than our figures throughout this report suggest.

There is no doubt that 2022 will go down in history as a year like no other, with many external influences playing their role. The outlook was positive as we came out of the disruptions caused by the pandemic but, within months we were seeing the global economic consequences of the war in Ukraine. At home, our political climate was in flux with the resignation of Prime Minister Boris Johnson, who was replaced by Liz Truss and then shortly after by the current Prime Minister, Rishi Sunak. We experienced the death of Queen Elizabeth, followed by the proclamation of King Charles. The value of the pound fell and The Supreme Court ruled that Scotland cannot hold a second independence referendum without approval from Westminster.

In addition, we all felt the effects of the cost-of-living crisis. Energy costs quadrupled, food costs rose faster than they had in four decades, fuel costs doubled and, to top it all off, interest rates rose nine times from 0.25% in January to 3.5% by December, the highest they have been for 14 years.

Optimistically, we waved goodbye to lockdowns and restrictions. The sun shone and we were delighted to get back to The Royal Highland Show – a relief following two cancelled years and important for us to support one of the biggest events in the agricultural calendar and celebrate the achievements of Scotland's farming industry.

On the whole, dry and hot weather contributed to an uncomplicated short harvest, with yields in general above average. The lack of rain also allowed many to save on drying costs – a small win considering energy prices.

Lack of exports from Ukraine, the 'breadbasket' of Europe, resulted in the rise of grain prices. Many farmers who had secured inputs before price hikes benefitted from this but, for some, the price rise was not enough.

Beef prices were up from 2021 and lamb prices fluctuated throughout the year. The dairy sector saw milk prices rise to the highest level for six years. The pig and poultry industries suffered due to rising costs and shortage in the supply of feed. The poultry industry was also threatened by Avian Influenza, struggled to compete with imports (which led to reduced laying flocks) and, in turn, a shortage of UK eggs on shelves – whilst the pig industry faced backlogs at abattoirs and a reduction in demand for UK pork.

Furthermore, there were ongoing uncertainties with agricultural policy reform looming. It was not until the end of the year that some news, albeit complex, had emerged regarding how the future of subsidies will look and how businesses will have to adapt.

Despite all of the commotion experienced by agricultural businesses, the farmland market held strong. Levels of demand remained higher than supply, farms on the whole sold well, and record-breaking prices were paid for arable land on the east coast and again for land seen as prime for commercial forestry or carbon projects. All of which is testament to the market's resilience and an indication that, as an asset class, Scottish farmland is viewed as more secure than many other investment choices.

“...as an asset class Scottish farmland is seen as more secure than many other investment choices.”

MARKET AT A GLANCE

Supply



41,600 acres were publicly advertised for sale, up 48% on 2021 levels and 30% above the five-year average.



87 farms were marketed, 27% of which were upland hill farms, a higher proportion than in previous years.



A quarter of farms, which is more than average, were over 500 acres, and 12 of these exceeded 1,000 acres.

Demand



89% of the farms publicly marketed had found a buyer by the end of the year.



The main buyers for farmland were farmers. Although we are experiencing increased demand from non-farming investors.



Demand is strong across all farm types, although larger hill farms asking £3m or more are taking longer to sell than the other types of farm.

Pricing



Overall land values increased across all land types during the first half of the year and flattened off during autumn and winter.



The average value of prime arable land on the east coast was approximately £9,500/acre.



Prices paid by forestry purchasers peaked at the beginning of the year, reaching in excess of £8,000 per acre.

SUPPLY

Amount of farmland marketed

According to analysis of our Farmland Database, the amount of farmland for sale in Scotland increased significantly in 2022, surpassing the supply of the three preceding years, and returning to pre-Covid-19 ‘norms’.

41,600 acres were publicly marketed, up 48% on 2021 levels and 30% above the five-year average, although these percentages are skewed by lack of supply during the pandemic.

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.

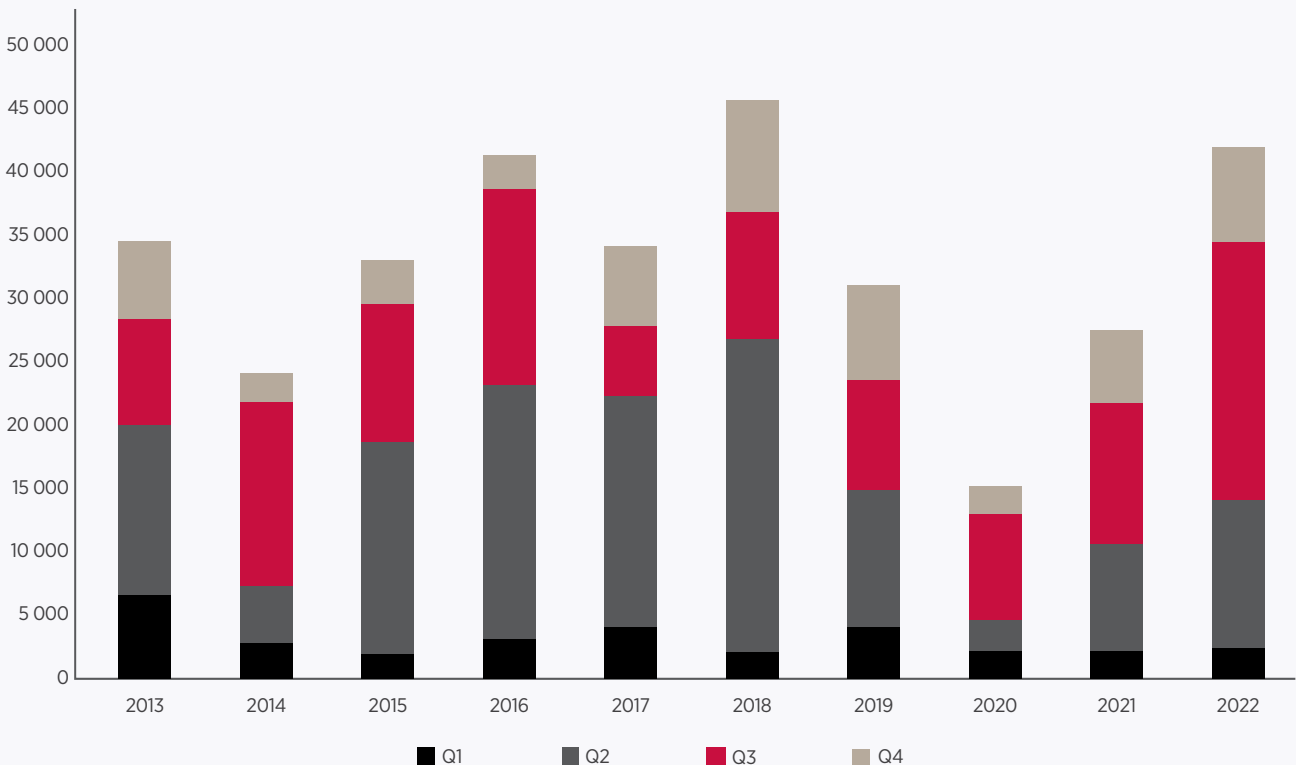
	Highlands and Islands	Lothian	Central Scotland	North East Scotland	Scottish Borders	South West Scotland	West Scotland	Scotland
2018	4,400	4,400	8,200	12,300	1,700	11,200	3,000	45,300
2019	4,900	500	6,500	7,200	1,000	8,300	2,000	30,400
2020	3,700	400	900	4,800	600	3,400	1,200	15,100
2021	6,500	1,300	4,300	6,700	1,000	4,800	3,500	28,100
2022	13,800	600	6,800	7,700	4,700	5,400	2,600	41,600
Five-year average	6,660	1,440	5,320	7,740	1,800	6,620	2,460	32,100
% difference	107%	-58%	27%	1%	161%	-18%	6%	30%

The supply in the market did not look to be improving at a rate faster than in 2021 during the first quarter of 2022. However, during the following six months, a much greater recovery was apparent.

In terms of acreage to hit the market, it was the busiest summer for ten years, but this did not equate to an increase in the number of farms. Instead, it was due to the size of farms available; almost a third of those marketed in the summer months were over 500 acres.

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

NB Figures are for whole years unless otherwise stated.



“In terms of acreage to hit the market, it was the busiest summer for 10 years...”

Number of farms marketed

The number of farms available on the open market also increased, to 87 farms, up from 77 in 2021 and was in line with the five-year average.

The number of farms for sale rose in almost all regions. In the Scottish Borders, more farms were available than in the previous five years, yet the Highlands and Islands saw a reduction to stock. The busiest areas of the country for sales were the north east, south west and central Scotland.

From our experience, more vendors chose a private off market sales approach. It is difficult to quantify the number of farms available privately due to the nature of the method, but we believe it could have accounted for one in five farm sales. Of those sold privately, they tend to be successful farming portfolios or large swathes of ground suitable for afforestation.

Figure 3 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
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	16	17	5	16	6	77
2022	9	3	19	20	9	16	11	87
Five-year average	10	3	19	21	5	20	10	87

Type of farm

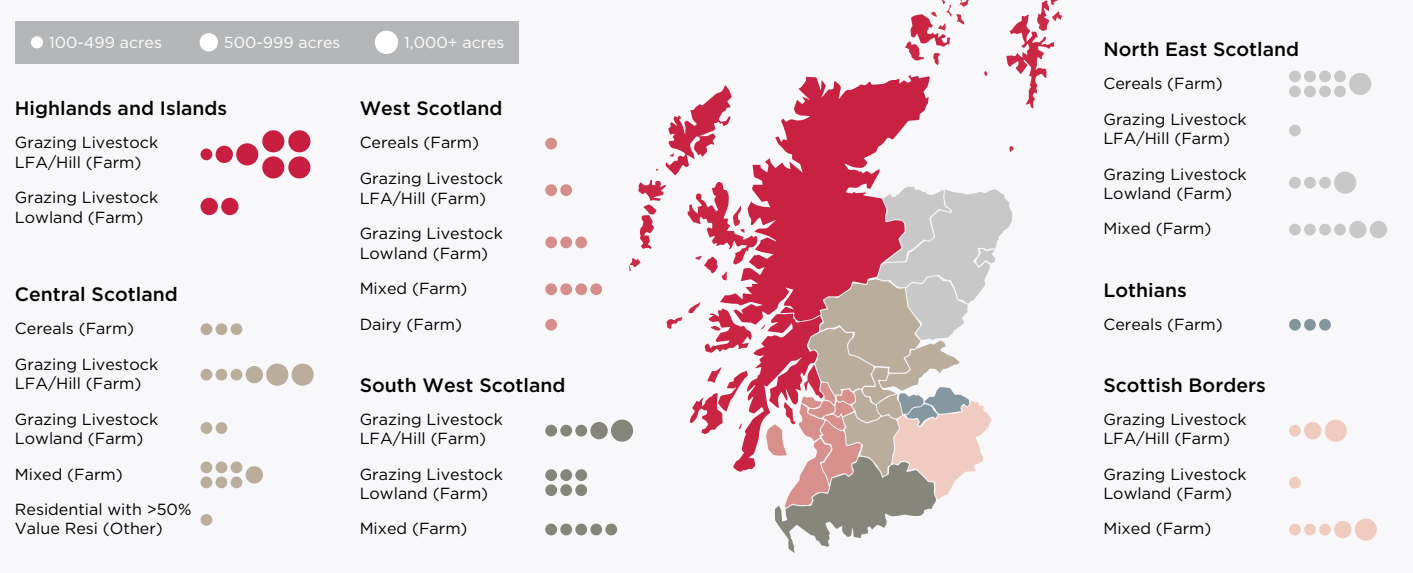
Overall, the mix of farms for sale was not dissimilar to previous years, with the largest proportion being mixed, livestock and arable farms. One shift was that hill farms, which usually make up between 10-20% of farms for sale, accounted for 27% of farms during 2022; a signal that

many chose to take advantage of the uplift in value paid by forestry and ESG investors, for land to sequester carbon or for commercial timber production (in some cases both).

Figure 4 Main type of farms marketed

	Amenity & Residential	Arable/Horticultural	Hill	Livestock	Mixed	Dairy
2018	7	37	26	24	18	9
2019	2	14	9	45	15	15
2020	2	11	9	18	7	3
2021		19	11	21	23	3
2022	1	16	24	18	27	1
Five-year average	2	19	16	25	18	6

Figure 5 Number of farms marketed in 2022 by region, farm type and farm size



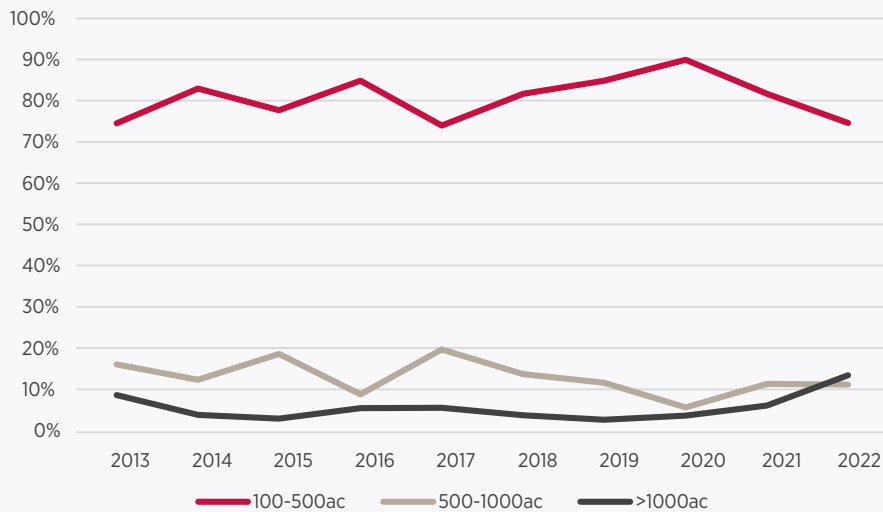
Size of farm

The majority of farms available were under 500 acres, which is usual, but last year it only equated to three quarters of the market which is lower than average.

In total, 12 farms exceeded 1,000 acres – the most in over a decade – and most of these were hill farms. A nod again towards the motivation to cash out on forestry and natural capital premium prices. For comparison, in any one year the number of farms that exceed 1,000 acres is not usually more than five.

“In total, 12 farms exceeded 1,000 acres – the most in over a decade – and most of these were hill farms.”

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



Reasons for selling

From our experience, the main driver for farmers to sell last year was retirement; perhaps not surprising with such an ageing farming population. It was recently reported that over half of farmers in the UK are above the age of 65 years old and only a small percentage are under 45.

Some of those retiring during 2022 did so earlier than planned, perceiving it to be the right time whilst the farmland market was performing well, and with various uncertainties on the horizon.

A number of non-farming vendors sold for similar economic reasons, taking their money out of the land, in order to help family members or bolster other business interests.

DEMAND

Proportion of farms sold

Three-quarters of the farms publicly marketed in 2022 had completed, concluded missives or were under offer by the end of the year, a little lower than in 2021 and 2020.

The majority of farms which remain available to buy 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, larger hill farms asking £3m or more are taking longer to sell than the other types of farm. This is likely to be due to the pool of purchasers for this type of farm and the increase of supply to the market.

Figure 7 Number of farms marketed in 2022 by farm type and sale status

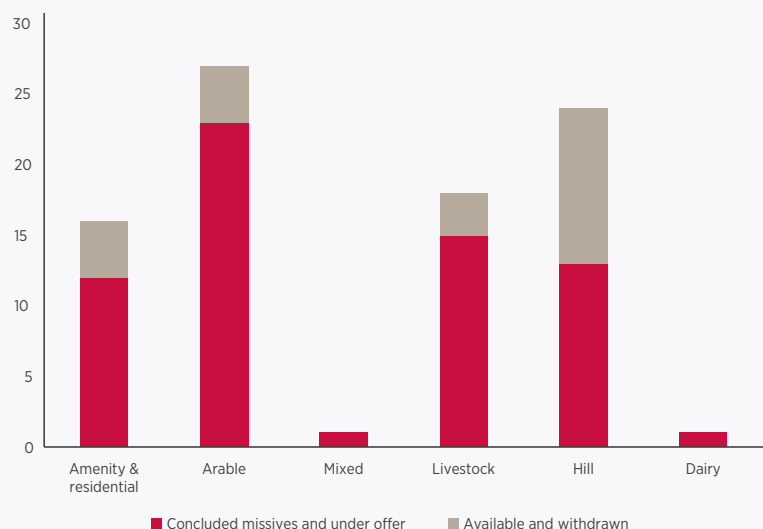


Figure 8 Number of farms marketed in 2022 by farm size and sale status

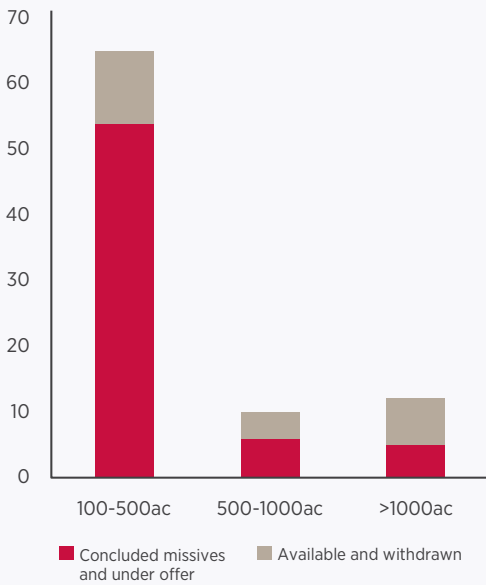
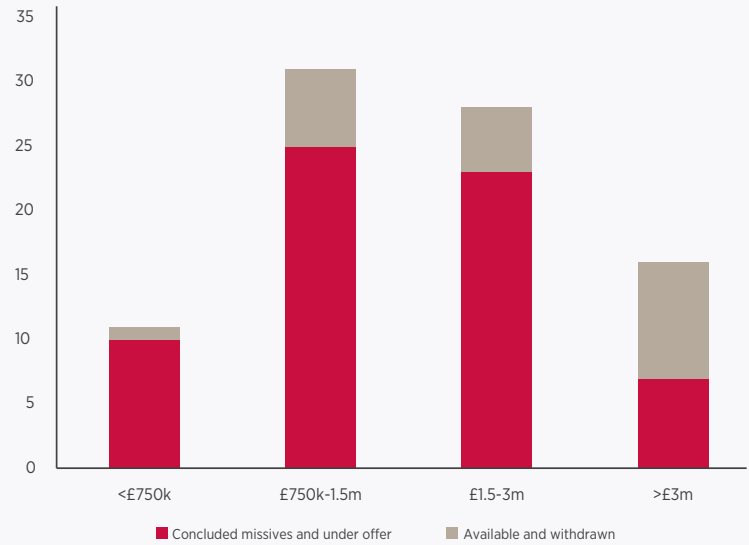


Figure 9 Number of farms marketed in 2022, by asking price bands and sale status



Strength of demand

Of the farms that were marketed in the first half of 2022, 89% had completed, concluded missives or were under offer at the turn of the year, which is above the five-year average and just below last year’s high of 93%.

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 sale 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.

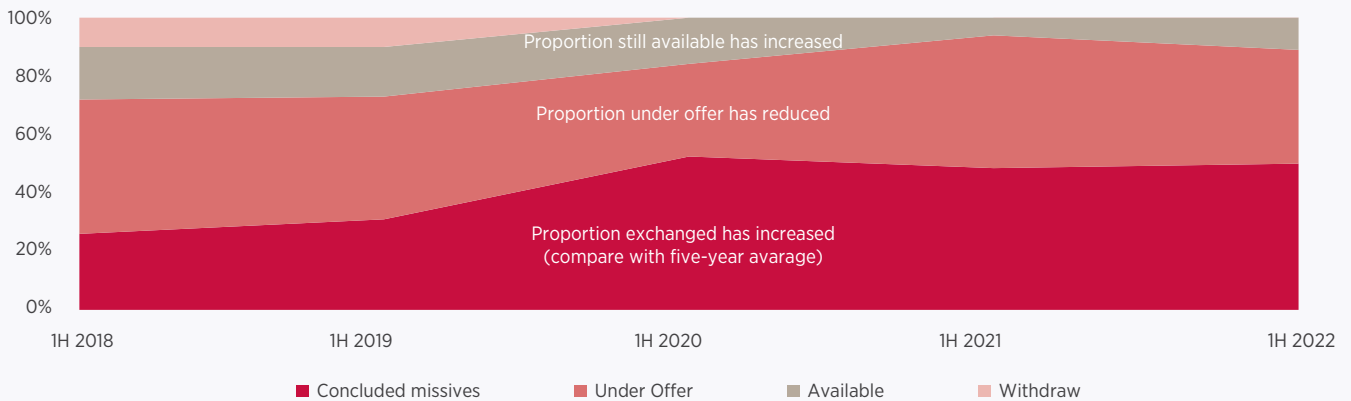
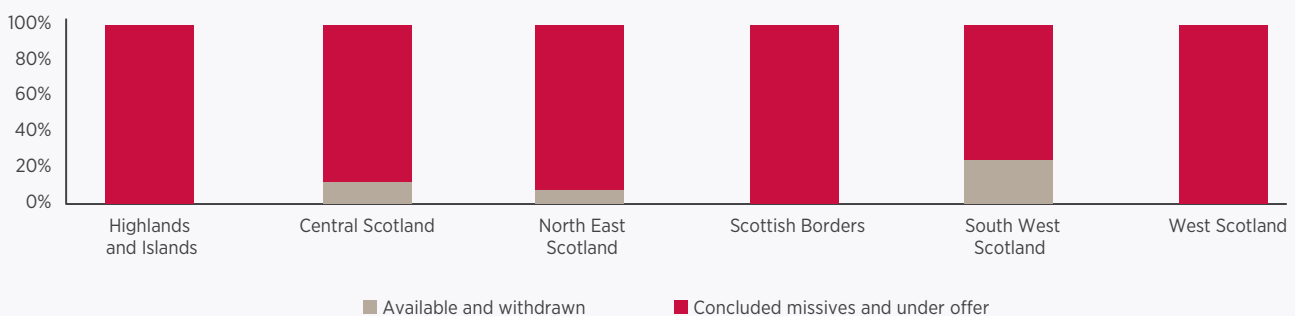


Figure 11 % of farms sold (concluded missives) by region in 2022

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 2022, 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

The main buyers for farmland were as expected – farmers looking to expand their businesses or keen to invest rollover proceeds from development land.

During 2022, there was an increase in activity from non-farming investors who perceived land as a less volatile and, therefore, safer asset class than the alternatives.

As has become normal, forestry and ESG type buyers were prevalent, especially during the first half of the year. Their enthusiasm waned during autumn and winter; a possible result of changes in the rules surrounding the attribution of carbon credits to commercial plantations, together with a high supply of suitable land and purchasers having met their annual targets/spent their budgets.

PRICING

Highest, lowest and average sale prices

There was much change in the agricultural sector when it came to costs and profits in 2022. This included commodity price rises, increases in input costs, escalating interest rates and the cost-of-living crisis. In addition, further uncertainty loomed with the unknown future of subsidies and agricultural support. However, by the end of 2022, the impact of all of this had not impacted on land values, which remained strong to stable.

In general, land prices rose during the first half of 2022 and flattened out during autumn and winter. At the beginning of the year we saw arable land on the east coast command some of the highest values, outperforming the best values achieved in England.

In addition, prices paid by forestry purchasers peaked at the beginning of the year, reaching in excess of £8,000/acre in some cases. This was not seen during the second half of the year, yet prices remained well above traditional

agricultural values. Upland values in Q3 and Q4 came back to approximately £5,000/acre - £5,500/acre.

In some cases, this impacted on the values paid for lowland pasture, and saw the gap between secondary arable and pasture reduce. In one example in Ayrshire, we saw bids for grassland reach equivalent arable values.

The average value of prime arable land on the east coast was approximately £9,500/acre, but varied greatly depending on location, from an average of £4,500/acre in the Highlands to £16,000/acre in the Lothians. The average price paid for grass leys increased from £3,500/acre in 2021 to £4,000/acre in 2022.

“The average prices paid for grass leys increased from £3,500/acre in 2021 to £4,000/acre in 2022.”

Sales at or above asking price

In general, land is selling well. Although we saw a reduction in the number of bids received at closing dates, they remained competitive and demand continued to outstrip supply. Bids above the asking price were achieved in 75% of the sales for which we have data, which is lower than the 89% reported for 2021. The other 25% are mostly selling at or close to the asking price.

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	4,250	6,500	1,500	2,500	3,500
Lothians	6,500	9,000	16,000	2,500	4,000	5,000
Central Scotland	5,500	7,000	9,250	2,000	3,750	5,000
North East Scotland	4,500	7,500	13,000	2,000	3,750	5,000
Scottish Borders	4,500	7,000	9,000	2,000	3,000	5,500
South West Scotland	4,000	4,500	6,000	2,000	3,000	4,500
West Scotland	3,750	4,500	5,500	2,000	3,500	4,500

CONCLUSION

There is no doubt that the next few years will be challenging, with uncertainty surrounding agri-policy and global economics influencing decision making. Despite this, we remain positive that the strength of the farmland market will continue into 2023. Based on our experience of the new year so far, we are expecting a strong supply of land to hit the market, for demand to continue to outweigh supply and values to hold. Moving forward cash will be king, and we anticipate that non-farming investors will make up a larger proportion of buyers.

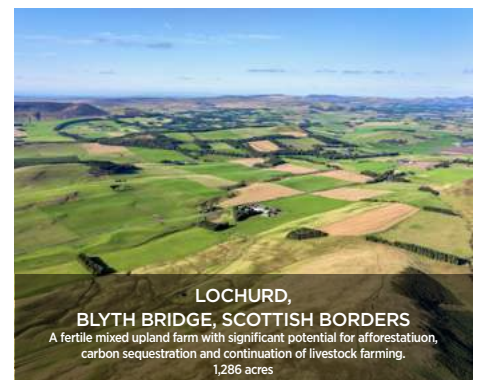
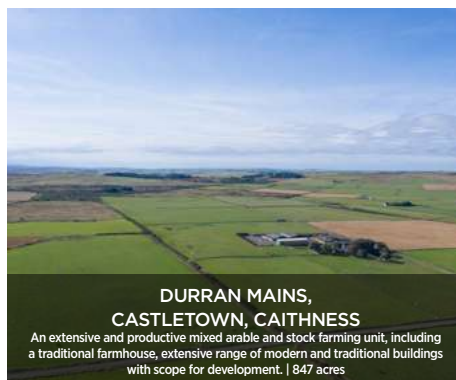
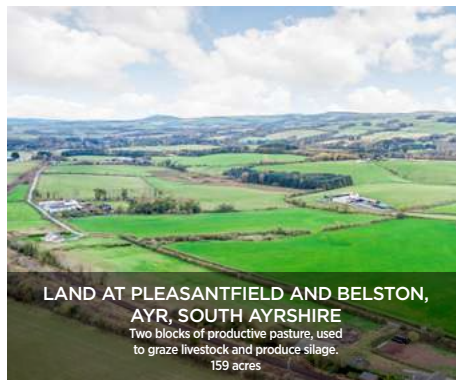
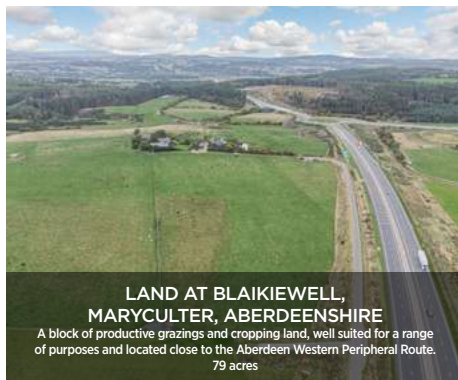
Covering the whole of Scotland our specialist estates and farm sales team, working closely with our land management, farming and forestry

colleagues, are well placed to offer advice to those considering a sale of farms, bare land and forestry.

We are confident that with our knowledge and involvement of the market, that we are well placed to provide you with advice on the sale and acquisition of rural property throughout Scotland. We offer no-obligation initial discussions and would be delighted to assist you in making the right decision for you, your family and business.

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

HIGHLIGHTS OF FARM SALES INVOLVEMENT 2022



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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 misses 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 misses, 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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