

# Market Briefing

## Farmland Market Quarterly Report



Q2 2015

SPRING 2015



### ***Rettie & Co. on the Farmland Market***

The supply of publicly marketed farmland has reached historically low levels but a steady demand has kept prices buoyant. Prices are likely to continue to strengthen for good arable land adjacent to ambitious neighbours, however we expect the lower subsidy payments and deflated commodity prices to affect land values in general.

We are at a similar point in the cycle to the years before the mid-term reform of the CAP and the introduction of Single Farm Payment (SFP) in 2005. At that time, the value of prime agricultural land in Scotland ranged between £2,000 – £4,000 per acre. The introduction of the SFP changed the British farmland market beyond recognition and kick-started a growth in arable land values which have increased by 200-300% in the last 10 years – we have seen a number of arable farms selling privately for well in excess of £10,000 per acre. The gap between the value of farmland in east and west has widened substantially during this time.

However as those subsidies are now being reduced, the business models of many farming enterprises will be significantly affected and it remains to be seen if a ripple effect will carry through to the farmland market as it did 10 years ago. Currently it is difficult to produce a budget showing a profit for most enterprises in 2015 and 2016.

On top of this, we believe that there will be significantly more acres marketed in Scotland in 2015 compared to last year, which means we will see the supply of farmland coming back up in line with demand from prospective buyers. There's no doubt that removing the imbalance we have seen in the market over the last few years will affect some values and it will therefore be as important as ever for those looking to sell, that units are correctly priced and meticulously prepared and that those looking to buy are properly informed of market conditions.

### **HEADLINES**

- As more Scottish acres are brought onto the market and supply comes back in line with demand, the prices paid by prospective farmland buyers will be further affected by impending lower subsidy payments as well as deflated commodity prices.
- Much of the new CAP regime remains to be clarified and uncertainty is not helpful to any property market.
- Despite Scotland's record cereal harvest in 2014, commodity markets have continued to drift providing a challenging outlook for 2015 and 2016.
- Rettie & Co will be attending the Fife and Drymen shows in May, the Haddington show in June, the Border Union Show in July and the Kinross, Peebles and Glendale shows in August as well as the Scottish Land and Estates Spring Conference.

## AS AT 27TH APRIL 2015



Currency	
£/€	1.39
€/£	0.72
£/\$	1.51



Arable (£/tonne)	
Feed Wheat	109
Feed Barley	107
Oilseed Rape	255
Feed Peas	195
Feed Beans	209
Potatoes	128



Livestock (p/kg lwt)	
Finished Steers	179.7
Finished Heifers	192.2
Lambs	187.0
Dairy Cows (£/head)	1,193



Milk (p/litre)	
Farmgate	27.22
Top Performing Contract:	
Dairy Crest M&S Profile1 (February)	34.54
Dairy Crest M&S Profile1 (Annual)	34.41

## LEGISLATION

- Pressure from European policy has led to a change in the direction of travel for the CAP (Common Agricultural Policy). Emphasis has moved away from direct payments to farmers and towards payments for public goods, but the squeeze on public spending means more will have to be delivered for less money.
- Farmers and landowners have seen the Scottish Government make a U-turn on the inclusion of sporting estates within the negative list of business activities under the active farmer test. Our current understanding is that sporting estates are no longer viewed as a negative list activity and will be eligible to receive the Basic Payment Scheme subsidy on registered land that is supporting agricultural activities. This seems to have been as a result of ongoing discussions with the European Commission.
- It's not just influence from Brussels that's affecting the legislative environment for Scottish farmers and landowners, but also pressure from closer to home. Nearly a year has passed since the Scottish Government published reports from the Land Reform Group and the Agricultural Land Holdings Review Group, with the contents being discussed at length ever since. A consultation from the Scottish Government on the Future of Land Reform in Scotland closed in February and the responses are now being analysed. We understand they will shortly appear on the Scottish Government website.

## COMMODITIES

## Arable

- Commodity markets have continued to drift with British wheat exports continuing to struggle against adverse £:€ exchange rates. Meanwhile continued removal of funds from commodities due to the falling oil price has accelerated the decline.
- This is despite Scotland's 2014 cereal harvest being the largest in 20 years, with an estimated production of more than three million tonnes of cereals. In total, around 3.2 million tonnes of cereals were harvested in 2014, an increase of 384,000 tonnes on the 2013 harvest. (Source: Scottish Government)

## Livestock

- Meanwhile expectations for another year of high lamb prices have dispersed dramatically with the hogg trade having collapsed in recent weeks across livestock centres in Scotland. In looking to achieve the £120 per head premium prices that were paid last year, producers held back their stock which has led to heavy and out of spec' lambs being brought to the market which in turn has dragged the rest of the sheep market down – with values as low as 165-170p per kg being reported. (Source: Scottish Farmer)
- In contrast, prime beef prices are expected to rise in the short term as prime cattle supplies on the UK market are forecast to tighten this year, which should re-address the supply/demand imbalance of last year and support the market to some extent going forward. However, while the possibility of firmer prices is improved and despite prospects for Irish production and trade being lower, Irish cattle will probably continue to trade at lower prices than those in the UK. In addition, issues in the dairy trade at the moment could result in more beef coming onto the market, which could also offer some downside risk to the trade. (Source: EBLEX)

## Dairy

- High global and domestic milk production, combined with the ban on dairy imports to Russia and falling returns from global commodity markets have resulted in the overall fall in milk price as the majority of UK milk processors have reduced the payments to farmers for raw liquid milk. The effects of previously announced price falls by several large processors will continue to feed through in the coming months. (Source: DEFRA)

**KEY DATES**

Events Rettie & Co. are attending this Summer:

Scottish Land and Estates Conference, Assembly Rooms Tuesday 19th May

The Fife Show, Cupar Saturday 23rd May

Drymen Show, Stirling Saturday 30th May

Haddington Agricultural Show, Haddington Saturday 27th June

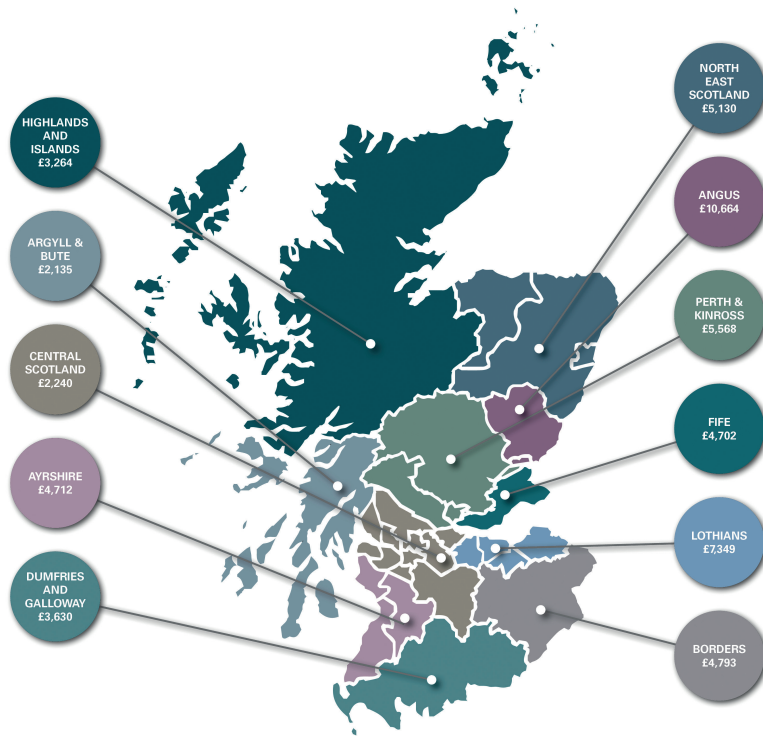
Border Union Show, Kelso Friday 24th & Saturday 25th July

Kinross Show, Kinross Saturday 8th August

Peebles Show, Peebles Saturday 15th August

Glendale Show, Wooler Monday 31st August

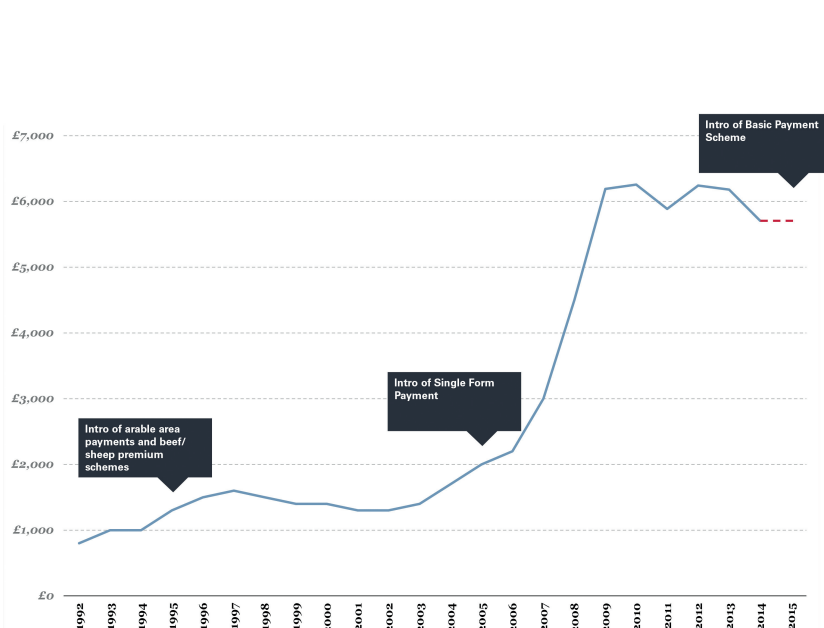
**AVERAGE LAND VALUES - £/ACRE FOR 2014, BY AREA**



A striking difference in value between Eastern and Western counties.

Source: Rettie & Co. Research

**AVERAGE £/ACRE IN SCOTLAND (ARABLE) VS FARM SUBSIDY TIMELINE**



Following the introduction of Single Farm Payment in 2005, the value of good arable farmland increased by over 300%. How will the market fare in the face of diminishing subsidies in 2015-2016?

Source: Rettie & Co. Research

## Rettie & Co. featured properties



STOBHALL ESTATE, PERTHSHIRE



DORNELLS ESTATE, BY CASTLE DOUGLAS



DIRLETON NEW MAINS FARM, EAST LoTHIAN



NETHERTON OF GLENBOIG, BY FINTRY, STIRLINGSHIRE



MAINS OF STOBHALL & GLADSFIELD FARMS, PERTHSHIRE



SUNNYSIDE FARMLANDS, EAST LoTHIAN



CAMPsie FARM, PERTHSHIRE



DOLLERIE ESTATE, PERTHSHIRE



PANMURE POLICIES, BY CARNOUSTIE, ANGUS

*“From our perspective the sales of Lots 1 and 2 have been complex but everything has gone extremely smoothly and, of course, very speedily. Thank you for your role in bringing all this to fruition and closure”.*

Mr R Morris, Netheraton of Glenboig Farm, Fintly

*“What I feared might be a protracted and stressful process has been relatively rapid and not too stressful due to Chris and his colleagues’ skilful and careful planning and negotiation. Chris’s skills and knowledge gained from similar estate sales and break-ups before proved hugely beneficial to the whole process”.*

James Strathallan, Stobhall Estate

For a no-obligation market appraisal, please contact:



Simon Rettie FRICS  
Managing Director  
0131 624 9047  
simon.rettie@rettie.co.uk



Chris Hall MRICS  
Director  
0131 624 4074  
chris.hall@rettie.co.uk



Nick Ainscough MRICS FFAV  
Farms and Estates Agent  
0131 624 4200  
nick.ainscough@rettie.co.uk