

FARMLAND MARKET UPDATE

The Carter Jonas Rural Research Bulletin is compiled by our research and rural agency teams across the UK and is an opinion-led piece tracking land values and commenting on activity in the farmland market.

KEY POINTS

- Average UK land values fell by 5.2% over the last 12 months to £10,500 per acre at the end of 2016
- Banks continue to support funding for rural property, although servicing of debt remains key
- Land owners are adopting a “wait and see” approach to observe how the sector will respond to potential policy changes once Brexit negotiations commence



INVESTORS REMAIN HOPEFUL THAT THE IMPACT OF THE BREXIT VOTE ON THE SECTOR WILL BE LIMITED.

MARKET COMMENT

Demand for rural property in the UK remained robust in 2016, despite on-going concerns surrounding the outcome of the EU referendum vote and its impact on the sector.

While arable land values have risen in some regional markets, the UK average declined modestly, reaching £10,500 per acre by the year-end, an annual reduction of 5.2%. The fall, to some extent, was linked to the outcome of the Brexit vote, although the reality is that the market was already cooling. The decline was somewhat accelerated by the slowdown of the commodity markets which have been struggling for the last 12 months.

Local buyers continued to dominate the market, although lifestyle buyer enquires, particularly in the North West and Western regions, increased. Investors who have historically focused on commercial assets are now beginning to form part of the buyer profile, particularly in Central England, as they consider rural property as an option to diversify their portfolios.

Across the regions, many purchasers continue to seek funding and are generally being supported by banks. However, in some instances, applications for finance are not being approved due to past performance and uncertainty over future profitability. Despite this, purchaser demand with rollover relief following development land sales has remained high throughout the country.

Buyer interest was promising during the Summer and Autumn months, with sale prices in the UK achieving, on average, approximately 5% above the original guide prices. However, with the UK expected to trigger Article 50 by March 2017, there is a general nervousness in the market. Supply throughout the country has generally been constrained as many land owners adopt a “wait and see” approach to observe how the sector will respond to potential policy changes.

Nevertheless, the UK’s rural sector seems to have normalised during 2016, following five years of strong growth, with many investors remaining hopeful that the impact of the Brexit vote on the sector will be limited.

Figure 1

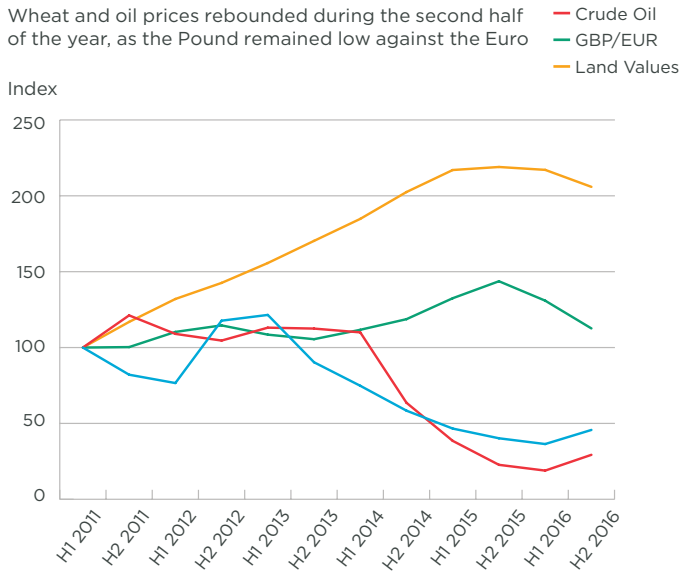
Key Agricultural Prices, Q4 2016

	Commodity	Price	Quarterly Change	Annual Change
INPUTS	Crude Oil (£/barrel)	34.7	5.4%	30.2%
	Fertiliser* (£/tonne)	237.5	35.3%	3.7%
	Red Diesel (pence/litre)	52.3	15.1%	16.3%
OUTPUTS	Feed Wheat (£/tonne)	142.0	12.0%	25.4%
	Rapeseed Oil (£/tonne)	356.1	10.4%	34.5%
	Milk (pence/litre)	25.6	19.6%	5.9%
	Beef (pence/kg dw)	350.1	1.8%	1.8%
	Pork (pence/kg dw)	152.1	10.3%	17.1%

- The weaker pound continues to drive commodity prices up
- Feed wheat prices increased for the last five months of 2016, with the year-end price recording positive annual growth for the first time since 2012
- Although input prices fell throughout 2016, a rebound in December saw end of year prices back to levels recorded in mid-2015

RURAL DATA DASHBOARD

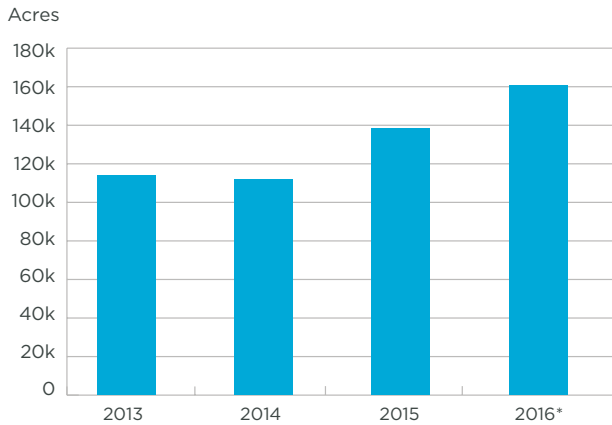
Figure 2 Land, oil, wheat, currency values*



*Annual growth to H2 2016 (H1 2011=100)
Source: Carter Jonas Research, AHDB, Oanda

Figure 4 Farmland Supply (to December)

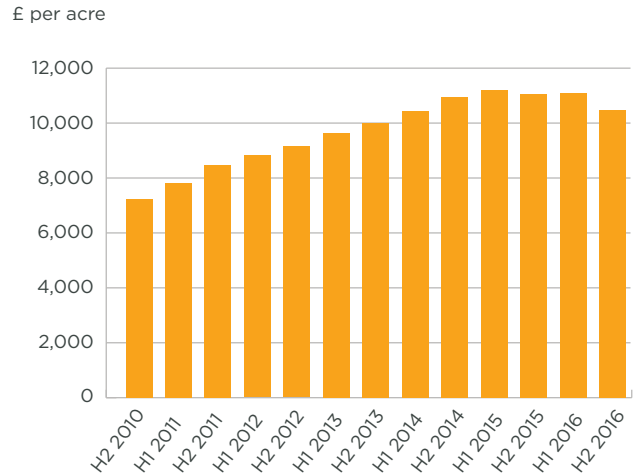
Openly marketed farmland supply during 2016 is estimated to be up by 16.1% year-on-year



*estimate
Source: Farmers Weekly

Figure 3 Average UK Land Values

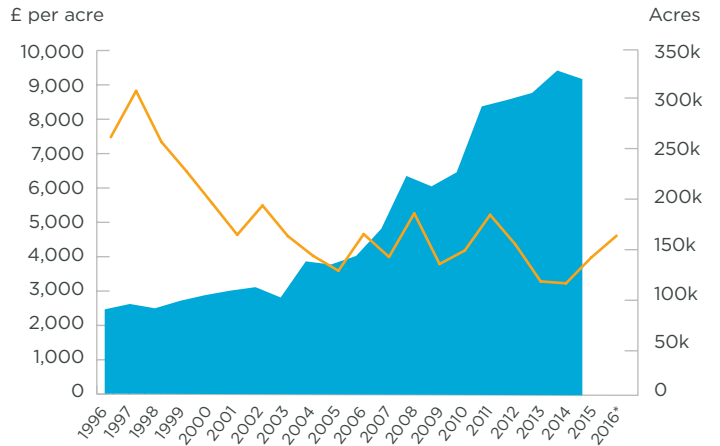
UK land values declined by 5.2% over the last 12 months to £10,500 in H2 2016, reaching levels achieved in mid-2014



Source: Carter Jonas Research

Figure 5 Average UK Land Values vs Supply

Although supply levels increased during 2016, they remain low compared to levels reached 20 years ago



Source: RICS, Farmers Weekly

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