UK Rural - January 2024

The Farmland Market

SPOTLIGHT

Savills Research

savills

Supply is building ● Election impact ● Demand and price forecasts

15%
more farmland marketed than the previous five year average

5
very few arable farms over 1,000 acres available in 2023

71%
more farm machinery sales in 2023 than in 2015

The farmland market 2023

A step change in farmland supply suggests it is set to increase further

There was a step change in the supply of lowland farmland onto the public market in Great Britain last year; 20% more land was offered than in 2022 and 15% more than the average for the past five years. In total 157,200 acres were marketed during 2023. While the recovery from recent lows is notable, in recent history transaction levels have typically been higher. For example, between 2003 and 2016 (after foot-and-mouth disease and before Brexit) an average of 162,000 acres per year were traded, varying from 139,000 to 201,000 per annum. This suggests there is potential for supply to increase further.

ENGLAND

Supply in England exceeded 100,000 acres for the first time since 2018 with a total of 115,500 acres brought to the open market. Availability was particularly high in the East Midlands and North of England, and whilst in some regions supply was below the five-year average, it was by no more than 10% (*figure 1*). There were more opportunities to purchase smaller blocks of land, availability of bare 50-100 acre properties exceeded the five-year average by 60%. These sales were often due to death or succession as well as a few driven by debt.

Despite the improved overall availability, there were relatively few opportunities in many areas to purchase good quality commercial-scale blocks of land, equipped farms and other highly sought-after properties (*figure 2*) – this is good news for vendors with properties that fit the bill, but it also means buyers need to be flexible in their property requirements.

Buyers were mostly neighbouring farmers or local Business Asset Rollover Relief (BARR) motivated buyers, consequently, interest was strongest for larger blocks of bare arable land and weaker for properties with multiple dwellings. Rollover relief motivated buyers were particularly active in the West Midlands but less active than historically seen in counties such as Oxfordshire. Throughout 2023 prices achieved for properties varied and were influenced by factors including location, scarcity and the specific characteristics and assets of the property. At a regional level values generally increased during the first half of the year but softened in some areas towards the latter part of the year, potentially as higher interest rates reduced the buying power of neighbouring farmers.

TOP THREE TAKEAWAYS

1 Farmland supply is increasing because of changes largely driven by the agricultural transition.

2 The rate of growth in farmland values will slow from 2024 due to weaker demand coinciding with the increase in supply. The remaining rollover funds and agricultural support offerings will support arable land values.

3 Our analysis suggests planning reform and more ambitious environmental goals and targets will feature strongly in 2024's political party manifestos.

SCOTLAND

Both the farmland and estate markets in Scotland continue to be short of stock. In total 26,100 acres were marketed, which is a similar acreage to the last two years. There is good interest in commercial well-equipped farms from investors and those with rollover funds available. Farmland values in Scotland increased by an average of 31% in 2021 as interest from afforestation focused buyers had an inflationary impact on land values across the board. Since then farmland values have remained stable and the market for forestry planting land, which is outside the scope of our farmland value survey, has fallen by 15-25%. Competition for planting land dropped over 2023 as several key buyers became less active whilst they sought to develop large landbanks of previously acquired land. Expectations of tightening the rules around planting better quality land also ended the run on better quality mixed farms, especially in the North East and Borders areas. However, no change has been implemented yet.

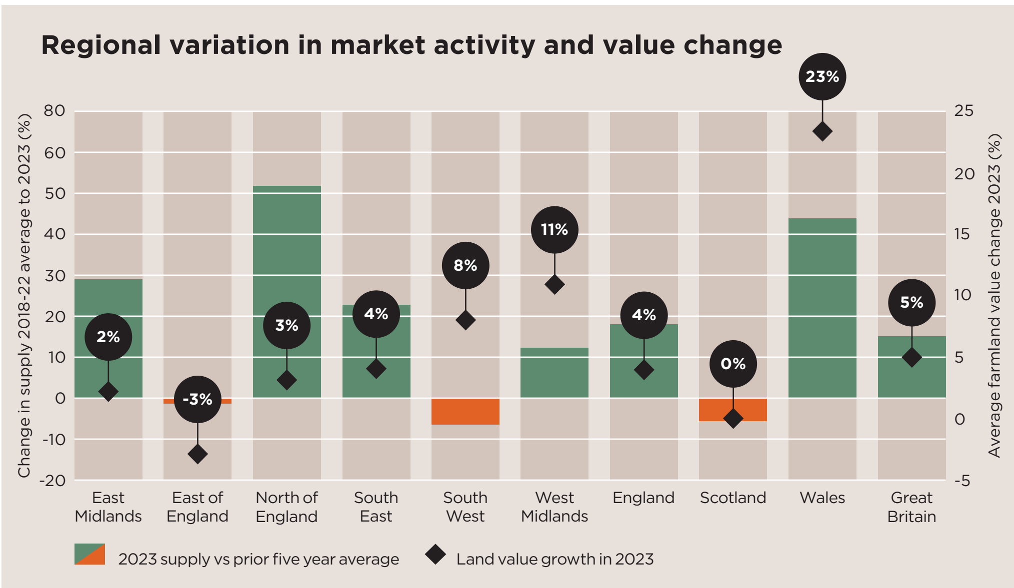


figure 1

Source Savills Research

Cover image: MyosotisRock / iStock, Lucky With Light / Shutterstock

> **“Due to the industry’s increased pace of restructuring, we expect the area of farmland marketed in Great Britain will continue to increase over the next four years”**

WALES

More land traded here in 2023 (15,700 acres) than in any year since 2000 (17,600 acres) as the market surpassed its average for the last five years by over 40%. The average age of farmers is high and our agents have noticed an increase in the proportion of vendors who are retiring due to a lack of successors.

Pent-up demand for land meant that values continued the upward trend that started in spring 2021 and increased by an average of 23% during the year (*figure 1*). The strongest growth was recorded for grade 3 pasture, which is one of the most common farmland types in Wales. Last year in our Cross Sector forecasts we noted that farmland in Wales had scope for capital growth due to the proposed Sustainable Farming Scheme, which provides a framework for profitable farm businesses and spreads the benefits of nature-based income streams across all farms. The Welsh government is continuing to develop the scheme and has indicated its approach to calculating mandatory woodland cover requirements will be pragmatic and exclude areas that are physically or legally constrained. Moving forward supply is expected to increase further so the rate of value growth is likely to ease as the market finds its equilibrium.

23%

Land values in Wales increased by an average of 23% during the year

How many opportunities in GB to buy 2023

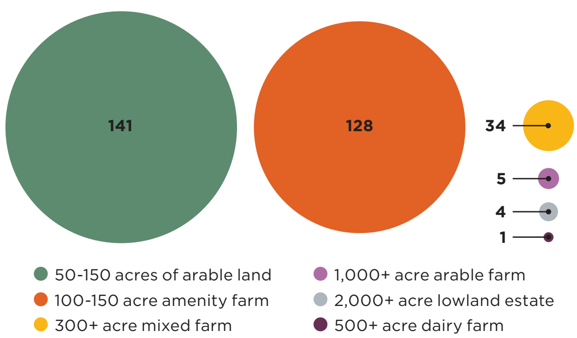


figure 2 **Source** Savills Research

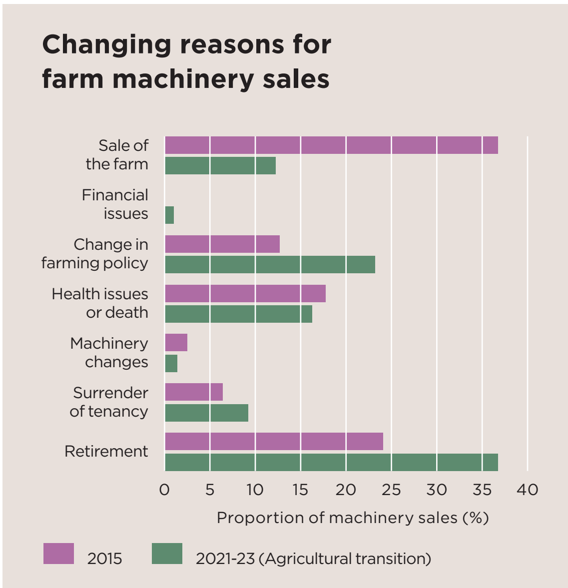


figure 3 **Source** Savills Research

WHAT DO WE EXPECT IN THE NEXT FIVE YEARS?

Nationally supply has been trending upward for three years following a decline starting in 2019 that was caused by uncertainty over the terms of the UK’s exit from the European Union and the consequent need for the UK government to develop new national agricultural policies. England is ahead in this process having started withdrawing area-based Basic Payment Scheme payments in 2021 and encouraging farm businesses to evolve by offering productivity-focused capital grants and latterly launching new environmental schemes. In Wales and Scotland change has been delayed to provide stability, although the direction of travel in terms of outcomes expected from land will be similar when new schemes are rolled out from 2025 and 2026 respectively. However, farmland supply may not respond to the same extent as in England where there has been more government focus on encouraging the industry to restructure.

These changes mean farmers are evaluating their options and restructuring. Over the last three years retirement and change in farming policy have become far more common reasons for farmers selling their farm machinery compared to 2015 when new agricultural policies were not on the horizon (*figure 3*). “Sale of the farm” now accounts for a smaller proportion of sales, but using the rise in machinery sales as an indicator we remain confident that more land will come onto the market. This is because the sale of farmland is one potential outcome following a change in farming policy, tenancy surrender or retirement. Despite the continued challenging economic backdrop, financial issues continue to account for a low proportion of farmland sales.

Due to the industry’s increased pace of restructuring, we expect the area of farmland marketed in Great Britain will continue to increase over the next four years. The market is likely to increase in size more rapidly in the near term before stabilising at around 180,000 acres per year by 2028 (*figure 4*). As a result of there being more land available on the market, there will be less inflationary pressure on farmland values.

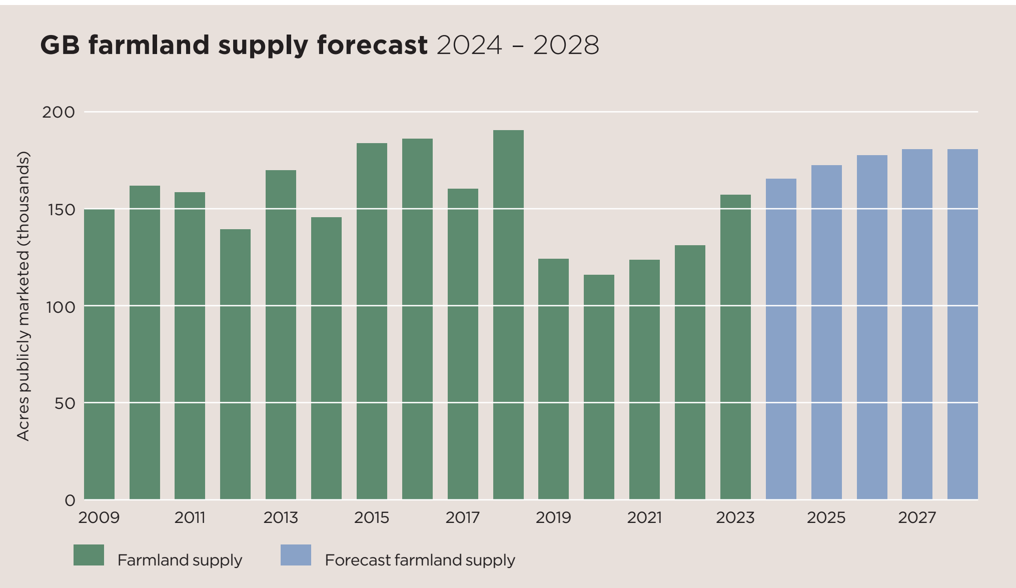


figure 4 **Source** Savills Research

115k

Farmland supply in England exceeded 100,000 acres for the first time since 2018

Current spending commitments are being targeted at the farming infrastructure needed to enable farms to meet tough targets in the Environmental Improvement Plan

Political party policies for land and farming

2024 will be dominated by election politics. We analyse what Great Britain's major political parties are pledging that could impact agricultural land values

CONSERVATIVE PARTY

- *Sustainable Farming Incentive payments will not be capped, but there is no commitment yet on the post-2024 budget*
- *£4 million for small abattoirs*
- *30% of land and seas protected for nature by 2030*
- *Watering down of net zero ambitions*
- *National Planning Policy Framework update due 2024*

The Conservative Party has been instrumental in creating a revolutionary new architecture for land use in England, with post-Common Agricultural Policy policies transferring responsibility for food supply chains onto the private sector and dramatically increasing financial drivers towards environmental outcomes. These twin changes are posing considerable challenges to farming, but the government's continued approach is to seek to empower farmers to make choices for their own businesses with minimal government interference. It has, however, yet to publish any manifesto commitments for a 2024 election. Current spending commitments are being targeted at the farming infrastructure needed to enable farms to meet tough targets in the Environmental Improvement Plan and at technologies that can unlock farming productivity, such as robotics and genetics. An announcement on inheritance tax reliefs for environmental land uses is expected before the election. Planning and protected landscapes remain the priorities. The recently enacted Levelling Up and Regeneration Act paves the way for further planning reforms, a revision to the National Planning Policy Framework is imminent and the search has begun for a new National Park for England in line with the current government's pledge to protect 30% of our land and seas by 2030.

Alex Manders / Shutterstock, PJ Photography / Shutterstock

50%
of publicly procured food to be locally sourced or environmentally certified under Labour

£1bn
per year extra in the Liberal Democrat's agriculture budget

44,500
acres per year by 2025 woodland creation target from the SNP

LABOUR PARTY

- *Promotion of responsible access to land*
- *Inheritance tax reform, but retention of Agricultural Property Relief*
- *Support that recognises the diversity of farming models*
- *Reform of planning rules and a review of the green belt*
- *Accelerate a just transition to net zero*

The Labour Party is widely predicted to have a resurgence in the next election. So far, its policies for agriculture have been scant. Policy commitments made at the Autumn 2023 conference focussed on energy and planning reform, both of which would have an impact on agricultural land. Critics have focused on the risk to the green belt from house building and infrastructure to enable electrification and an energy transition. Also eye-catching is Shadow Chancellor Rachel Reeves' pledge to "build it, make it and buy it in Britain", with a corresponding commitment for public procurement of food to be at least 50% locally sourced or certified to higher environmental standards. Threats to inheritance tax remain, but Shadow Environment Secretary Steve Reed has suggested Agricultural Property Relief is safe.

LIBERAL DEMOCRAT PARTY

- *Increase in the agricultural budget of £1 billion per year*
- *Even apportionment of funds across three tiers of Environmental Land Management*
- *Reform of water and abstraction rights*
- *New statutory purpose for planning to deliver for nature and climate*
- *Increase in Biodiversity Net Gain duration to 120 years and require 100% gain for larger sites*

The Liberal Democrat Party has been guided by a food and farming advisory council in the creation of its comprehensive and aspirational plan for the environment. The detailed document contains multiple promises that address many of the current issues in agricultural policy, from unequal trade standards to the need for regulation of emerging environmental markets. Adoption of the Liberal Democrats' plans for registries and government oversight of carbon removals and nature-based offsets would bring confidence to natural capital investors. A Sustainable Land Standard to set a new regulatory baseline for rural land uses (see right) and comprehensive reform of water regulation is also promised. This would entail proper enforcement of the Farming Rules for Water to tackle diffuse pollution from agriculture, and reform of abstraction rights. Most eye-catching are institutional reforms for the government to embed sustainability within the economy, including a new Chief Secretary for Sustainability and an Environment and Wellbeing budget to sit alongside the traditional budget. Reform of planning includes a new "wild belt" around towns and cities and to ensure that the planning system delivers for nature and health.

250k
Plaid Cymru plan to create 250,000 acres of mixed woodland per decade

PLAID CYMRU PARTY

- *Create publicly or cooperatively owned shops to sell Welsh food*
- *A rural Senedd to strengthen the voice of rural communities*
- *250,000 acres of mixed woodland creation per decade*
- *Increase the level of organic farming in Wales*
- *Revisit the Nitrate Vulnerable Zone regulations*

The Plaid Cymru Party holds four seats out of 40 Welsh Westminster constituencies, and 12 out of 60 seats in the Senedd. Its published manifesto commitments relate to the 2021 Senedd election and new policies for the 2024 general election have yet to be announced. As the party campaigning for an independent Wales, Plaid Cymru has strong roots in the Welsh rural and cultural economy. Its policies reflect this deep commitment, taking popular farming opinion into account on issues such as NVZs, bovine tuberculosis and supporting the wool industry.

SCOTTISH NATIONAL PARTY

- *Increased woodland creation target to 44,500 acres per year by 2025*
- *Commitment to support active farming with direct payments*
- *Tougher conditionality on farming support*
- *Support for community and locally owned renewable energy*
- *Ongoing land reform agenda*

The Scottish National Party has set out an ambitious programme for its government, which will influence its campaign for Westminster seats. However, as agriculture and the environment are devolved matters, the 2024 Westminster election will be less influential on agriculture than the next Holyrood campaign, expected in 2026.

A NEW SUSTAINABLE LAND STANDARD

The Liberal Democrat Party has set out an idea for a Sustainable Land Standard (SLS), which it says will act as a new regulatory baseline for sustainable farming, forestry and other land uses. The party intends that the SLS will apply to domestic production and imports, "to ensure fairness and prevent undercutting of our farmers", while allowing for local flexibility. It promises the new standard will set clear expectations for farming businesses, "embedding regenerative and agroecological agricultural practices and high expectations for the environment and animal welfare". The concept is the most ambitious of all the political parties' pledges so far for farming, but much more detail would be needed to determine whether this could be unwelcome red tape for farmers and landowners and an unfair barrier to trade, or a truly adaptable global standard for sustainable land use.

LAND USE AND OWNERSHIP POLICIES EXPECTED IN 2024

Regardless of whether there is a change of government in 2024, we are expecting policy announcements in the next 12 months that may have a bearing on farmland values:

1. **England:** Land use framework – Q4 2023 (overdue)
2. **UK:** Taxation of environmental land uses consultation response – Q2 2024
3. **Scotland:** Land Reform Bill – by Q4 2024
4. **UK:** Food security report – Q4 2024

46%
of properties bought by farmer buyers in 2023

2.5%
forecast for the average increase in grade 3 farmland values across GB

18%
more new applicants registered with Savills in 2022 than in 2023

The outlook for farmland demand and values

Value appreciation to slow due to economic challenges, weaker demand and increased availability of farmland

The beauty of land is its flexibility, which means it appeals to different types of buyers with a range of objectives. Farmers and lifestyle buyers are the two largest groups and the proportion of purchases they make changes each year according to their relative prospects. When farm incomes declined in the early 2000s, farmers were less likely to be purchasers, but they succeeded in a higher proportion of transactions when the global financial crisis impacted lifestyle buyers later that decade (*figure 5*).

Institutions have a long history of farmland ownership and were particularly active during the 1980s. Since 2000 institutional, corporate and charity buyers have typically accounted for between 8-12% of annual purchases. Their activity started increasing in 2020 when it became clear rural land was part of the solution to climate change and there was an urgent need to improve biodiversity. Since completing 17% of transactions in that year, the trend has continued and in 2023 they bought 14% of farms offered for sale. For some land ownership provides an opportunity to reduce their climate impact or meet their charitable objectives, while for others the growing market for nature-based solutions is a business opportunity. One of the active buyers of lower productivity land is Oxygen Conservation (see case study opposite), which is mission-driven with a commercial approach that allows it to magnify its positive environmental impact.

DEMAND INFLUENCES

Considering the flexibility of land use and the diversity of buyers it is no surprise that a wide range of factors influence the demand for farmland. We have listed below what we believe are currently the four most significant influences with some analysis of why.

1 **Strength of the economy and taxation policy**: Driven by improved trading prospects and optimism about the economy, the Lloyds Bank Business Barometer measure of overall business confidence recovered in November to its level before Russia invaded Ukraine. This suggests businesses are adapting to the economic challenges it caused. During 2023 the Bank of England base rate increased from 3.5% to 5.25% leading to higher income on cash deposits or costlier borrowings. Both are impacting the demand for farmland as some investors favour a fixed-rate cash investment over investing in real assets like farmland. For some buyers who require mortgage funding, the higher cost of debt and banks' stronger focus on debt's serviceability from income is restricting their ability to compete for larger properties.

Inflation is dropping and the base rate has been held at 5.25% for three months. Bank of England governor Andrew Bailey has said it won't be cut in the "foreseeable future", although a recent Times poll found a majority of economists expect a number of reductions this year.

The farmland market has continued to prove resilient, indeed this is one reason owners choose to hold or buy farmland. Its inheritance tax exemptions are a factor too; it has been reported that the chancellor is considering cutting the rate of tax or increasing the personal allowance. Changes of this nature would reduce the advantage agriculture property holds over other property assets but wouldn't create any tax liability.

2 **Farm expansion and production:** After taking into account all the changes to payments, regulations and schemes, 39% of farmers are positive about their future in farming according to Defra's April 2023 Farmer Opinion Tracker. Around a fifth said they were planning to expand their business. Provided it is within their financial means, demand for farmland from neighbouring farmers will continue to be strong because local opportunities to expand are rare – less than 0.5% of farmland is publicly traded in any given year.

The demand for food, fibre and fuel products will increase. The recent Biomass Strategy was clear that perennial energy crops will account for a major part of the domestic increase in biomass production and set an ambition to establish 42,000 acres a year

Purchaser type (Three-year rolling average)

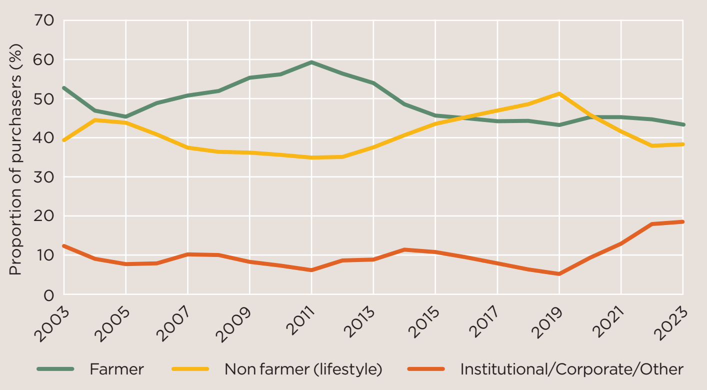


figure 5 **Source** Savills Research

GB farmland value forecast 2024 – 2028*

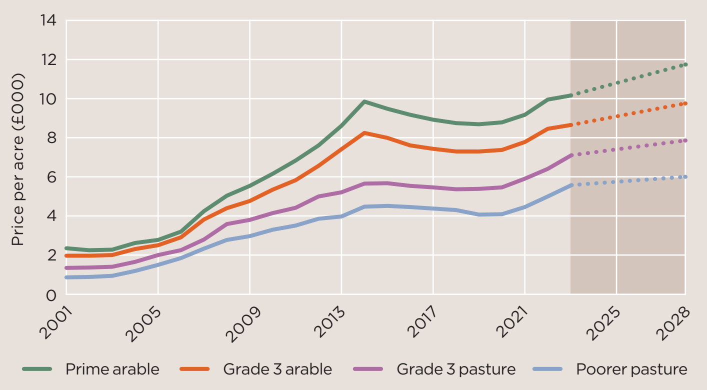


figure 6 **current prices* **Source** Savills Research

Andy Wasley / Shutterstock

> **“Considering the flexibility of land use and the diversity of buyers it is no surprise that a wide range of factors influence the demand for farmland”**

within 15 years, whereas the total crop area is around 25,000 acres today. It is expected investors will be attracted by the index-linked returns offered by this market.

3 **Nature-based solutions:** Nature-based solutions are becoming a mainstream land use rather than a disrupter. Their markets have matured, buyers now have more defined business cases and their land requirements are increasingly geographically and physically specific. While stacking land uses is possible, agricultural productivity is typically reduced so each market increases the demands being placed on our limited land base, the strongest demand for farmland currently relates to these markets:

- Biodiversity Net Gain is mandatory in England from 1 February 2024 and is expected to require over 3,200 acres of habitat creation each year.
- Nutrient offsets are essential in affected catchments and the autumn statement awarded planning authorities £110 million to develop local mitigation schemes.
- The UK’s ambition is to plant 74,000 additional acres of woodland per year from May 2024, which is more than double the current rate. The concept of “the right tree in the right place” is now being applied more firmly, focusing afforestation on lower-quality land.

4 **Rollover buyers:** Activity in the development land market is slowing and greenfield development site values have continued to soften, falling by 8% in the 12 months to September 2023 (Savills Residential Development Land Index). Despite the downward pressure, values are proving more resilient in some markets due to constrained supply as 22% fewer homes were granted planning consent in the 12 months to June 2023 compared to the previous peak in planning consents in the 12 months to June 2021. Savills development research concludes that appetite for land is mixed: the major housebuilders are cautious but private housebuilders backed by private finance are taking the opportunity to realise their growth ambitions.

A weakening market for development land will mean there are fewer new Business Asset Rollover Relief (BARR) motivated buyers competing to buy farmland. But this pool of buyers and funds will decline over time rather than disappear. This is because BARR allows the farmland acquisition to be made up to three years after the development land is sold. Secondly, developers now prefer to buy development land on deferred payment terms so past sales are still paying out.

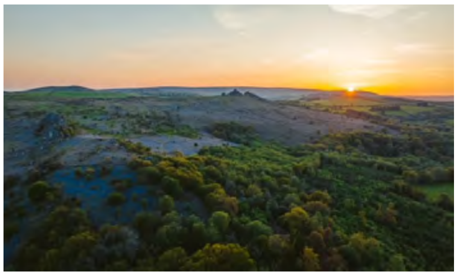
FORECASTS

Taking all these factors into account we forecast that growth in farmland values will be modest. There is now a general expectation that the base rate will be “higher for longer” and not return to the lows of the last decade. So economic challenges will weaken demand at the same time as agricultural policy is driving changes within the industry that are leading to the amount of farmland being offered for sale increasing more rapidly than we anticipated last year. As a result, we have revised our forecasts downwards.

Rollover buyers’ interest tends to be focused on arable land so where they remain active in the market we expect this to positively influence arable land values. We forecast that prime arable and grade 3 arable land values will increase by a national average of 3% and 2.5% per annum respectively over the next five years (*figure 6*). Only modest growth is now expected for pasture values as the agricultural transition and current iterations of the new support offerings will challenge livestock farming economics more heavily. We forecast that over the next five years grade 3 pasture values will increase at an average rate of 2%, while an average increase of 1.5% per annum is anticipated for poorer quality pasture land.

19%

After taking into account all the changes to payments, regulations and schemes, 19% of farmers are planning to expand their businesses



BUYER PROFILE CASE STUDY

When investing, a key mantra is to think long-term – think decades, not years. But what about centuries? That is the distinct ambition of Oxygen Conservation, to invest in natural and social capital and create long-term, permanent improvement at scale. How does it identify suitable property to achieve this?

Developed a proprietary model that draws on 45 spatial layers and 16 financial simulations

Used to assess and value £14 billion worth of property across more than 7 million acres

Identified 80 suitable properties on the market to view

Made 10 investments totalling 30,000 acres within less than three years

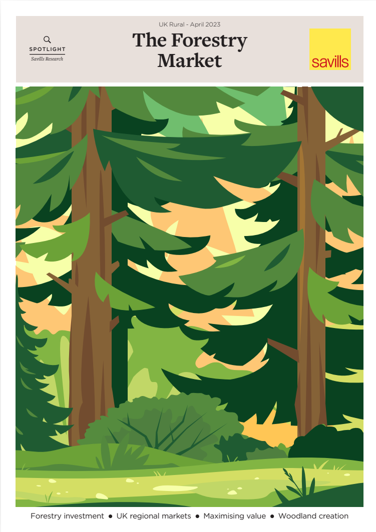
WHAT TYPE OF PROPERTY IS NEEDED?

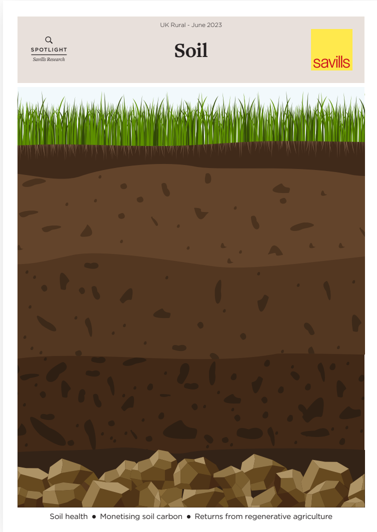
Oxygen’s portfolio is diverse although it does not buy grade 1 or 2 land. It has property in eight counties, varying from a 12,000-acre site in the Scottish highlands to 774 acres of rolling countryside on the edge of Exmoor National Park and a coastal SSSI in Wales at Esgair Arth.

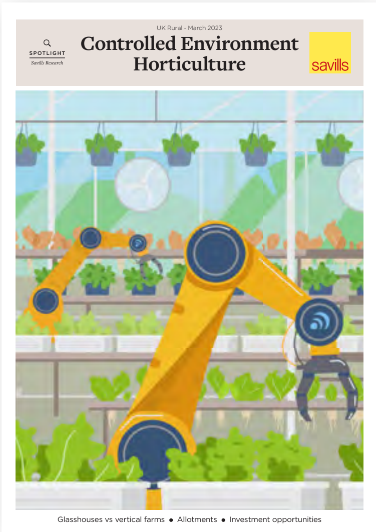
Having a range of property means the process of restoring each site is bespoke. It is based on up to two years of analysis and has led to some challenges. “In conservation, we live with contradictions and compromises,” says Rich Stockdale, founder of Oxygen Conservation. “On one of our sites, the number of deer needs to decrease to allow biodiversity. Am I happy about that? No. But we don’t have the luxury of black and white in conservation”.

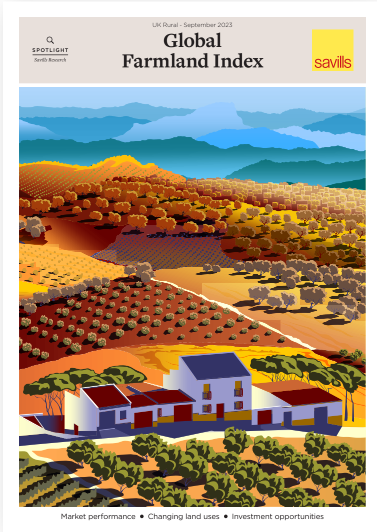
HOW IS IT FUNDED?

Initial investment has been sourced from the Oxygen House Group and a loan from Triodos Bank. Its approach to natural capital investment involves income generation from existing properties including ecotourism, wind and solar energy plus the sale of independently verified natural capital products will play a role in funding future property purchases.









savills

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market.
To view copies of our previous Spotlight publications, go to **www.savills.co.uk/insight-and-opinion/**

Kelly Hewson-Fisher
Head of Rural Research
+44 (0) 7977 539 956
kelly.hewsonfisher@savills.com

Andrew Teanby
Associate Director – Rural Research
+44 (0) 7835 445 458
ateanby@savills.com

Joe Lloyd
Associate – Rural Research
+44 (0) 7790 824 970
joe.lloyd@savills.com

Alex Lawson
National, Head of Rural Agency
+44 (0) 7967 555 502
alawson@savills.com

Evelyn Channing
Scotland, Rural Agency
+44 (0) 7807 999 412
echanning@savills.com

Daniel Rees
Wales, Rural Agency
+44 (0) 7968 550 419
drees@savills.com