UK Farmland Summer 2018 Report

BREXIT – The Making of UK Agriculture?

UK land ownership and farming remain attractive, notwithstanding the current uncertainty over BREXIT and the differing views expressed on its outcome.

- The UK benefits from liberal property laws, transparency of ownership and low taxation. It has a skilled, well capitalized farming sector, with good soils and a benign climate. There are no restrictions on foreign ownership of land and freedom of contract for tenancy agreements. In addition to the generally low tax environment, there are also considerable tax incentives for private individuals of owning UK farmland – inheritance tax relief, plus roll over relief on capital gains on land sold for development

- Whilst there is a low turnover in the farmland market, with generally small transactions, with the right team on the ground, it is possible to acquire large tracts of prime land over a relatively short period of time e.g., James Dyson's Bees Wax Farms – 33,000 ac (13,000 ha).

Farmland Market - Summer 2018

The UK land market moved little in 2017 and the first half of 2018 has proved no different. Statistically, figures produced by Knight Frank show that the average value of land in England rose by 0.4% in Q1, but this is based on a low volume of sales. Until this summer's drought type conditions saw an increase in wheat prices, commodity prices had remained stable over the last 12 months after the previous four years of decline, but the issue of BREXIT continues to overhang the land market and farming. Interestingly, this short term picture reflects the long-term trend which shows that over the last 100 years the value of GB farmland has on average increased by 6% per annum, with real term growth adjusted for inflation at just over 1% (source Savills).

In our view, the figures do not reveal the underlying picture, which shows stability in the value of farmland in certain locations, driven by taxation and non-farming factors, but real downward pressure on the value of land in pure agricultural production regions, with as much as a 30% reduction of land prices in some areas. This is based on both our own experience of negotiating potential transactions and also statistics which show that in 2017 sellers of land citing debt as the principal motivation were 21% of the total, compared to 14% five years ago and 6% ten years previously. This would point to stress and disruption in the sector and very good buying opportunities. Long-term fundamentals of UK farming remain strong: in 2017 the total income from UK farming increased to £5.7 bn (although NB 57% from CAP support) , cf £4.1 bn in 2016 and Defra announced that in 2017 farming productivity increased by 29% to its highest ever level.

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BREXIT

However much we all wish to move on from BREXIT, it remains the principal issue overhanging the UK economy and particularly the land and farming sector. The current situation in summary is:

- Until the UK formally leaves the EU, Basic Payment Scheme (BPS) will continue to operate.
- Post March 2019, it is expected that there will be a two-year transition period. In addition, the UK Government's Environment Secretary Michael Gove has suggested there should be a five-year period after March 2019 to allow farmers to adjust to a new scheme, suggesting a BPS type scheme could be in place until 2024, but with direct area aid payment rates tapering down from 2022.
- It is proposed that farmers will be paid instead for Public Goods e.g. sustainable food production and other environmental objectives, rather than the number of hectares farmed. DEFRA announced that there would be a transition period between the two systems i.e. until 2025.
- A Command Paper was published in February 2018 giving examples of how this might work.
- A public consultation period on future UK agricultural policy, concluded at the end of May 2018.
- There has been much discussion as to how subsidies will be reduced e.g. either all farmers having their subsidies reduced by 5-10% or payments being capped to say £100,000 for the larger farmers.
- Environment Secretary Michael Gove has said that there will be a Government paper released by the end of the summer giving greater clarity on future agricultural support.

Conclusion

The uncertainty of BREXIT, plus until recently the low price of commodities, has caused considerable softening of the land market in some regions, creating very attractive value buying opportunities. With Sterling at such low levels against the Dollar and Euro, UK farmland is also looking particularly good value historically for international investors. UK farmland has many attractions as a long-term investment and with all the issues surrounding BREXIT, it may be an opportunity to for an investor to buy land at, or close to, the bottom of the market.

InvestAg

InvestAg is an investment advisor and asset manager for international agricultural investors. We offer our clients tailor made investment solutions, including off-market UK and international farmland investments with experienced local operating partners.

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