THE IMPACT ON RURAL MARKETS
Brexit Briefing

INITIAL ANALYSIS

SUMMARY
Uncertainty and Opportunity

- In the short term, there are factors to suggest the additional downside (over and above our current forecasts) of Brexit on farmland values may be muted.
- The weak pound creates export opportunities and if it continues trading at current levels in to September, there will be a significant increase in farm subsidies to UK farmers in 2017.
- Also the weak pound creates a favourable buying environment for overseas buyers, and this, along with the potential reduced supply driven by uncertainty, may help support farmland values.
- In the event of a significant reduction in farm subsidies and therefore incomes, the negative effect is likely to be greater on rents than land values.

“Uncertainty has to be the key factor and it is very likely that farmland market activity in the second half of this year will be more subdued as potential sellers wait and see”

Ian Bailey, Savills Research
The full impact of Brexit on all of the UK’s property markets will be very dependant on the macro-economic background and the evolution of the story over the next two to three years.

We must stress it is early days and there are many unknowns. Uncertainty has to be the key factor and this will principally be around those factors that have direct impact on farm incomes. It is likely that farmland market activity in the remainder of this year will be more subdued as potential sellers wait and see.

This paper is our first analysis of how this changed world might affect rural markets. It will be updated on a regular basis over the following months as hard data, anecdotal news and our forecasts evolve.

Macro-economic background
The most optimistic scenario for the UK economies assumes that given the fact that the majority of the UK population voted for the result, the scale of the economic shock will be less than that felt around an “external” shock such as the global financial crisis.

The most pessimistic scenario is that the combination of suspended corporate decision making, sharp falls in consumer confidence, rises in lending rates and other factors leads to a short term recession in early 2017, followed by a period of much lower than forecast growth.

The key question is how long it will take the UK to exit from the EU and negotiate its position regionally and globally? The Prime Minister stated he will not enact Article 50; this will be the responsibility of the new Prime Minister, Theresa May. This leaves us with a base view that the present political landscape is likely to continue until the end of 2018 but more clarity will evolve during this period.

The response of the major European countries will also be important to the prospects for the UK. A vindictive reaction is possible. However, the fact that the UK will become the single largest export market for the EU should temper the likelihood of that sort of reaction.
Farmland Market
Uncertainty is the key factor and it is very likely that farmland market activity in the second half of this year will be more subdued as potential sellers wait and see.

Our research shows just over 100,000 acres were publicly marketed across Great Britain in the first half of 2016, which was on a par with activity for the same period of 2015. Historic trends suggest uncertainty creates a lull in market activity and this appears to be the case across England, where supply in the first half of this year, at 68,000 acres, was 10% lower than the same period last year. However, in Scotland and Wales the opposite pattern was recorded (see figure 1).

Anecdotal evidence suggests that, in Scotland at least, there has been a degree of referendum fatigue which has not hindered activity. In Wales the market is very small and a few farms can make a difference either way.

The uncertainty will principally be around those factors that have direct impact on farm incomes. These will include the UK’s international trade relationships and the level of farm support that will replace the Common Agricultural Policy (CAP). Currently subsidy represents about 67% of the average UK farm income. However, farming subsidies under the CAP are already falling and are playing a reducing role as a driver of land values. This is especially so for diversified businesses where direct agricultural income is only a part of the total income stream. The impact will be felt most on purely farming businesses and especially so for tenants who will not have the flexibility or the assets to generate additional income streams.

In the short term the weak pound makes our exports more competitive. In addition, UK farmers may receive a significant increase in farm subsidies in 2017 if the weak pound continues through September. This may be a short term benefit. Rural businesses should use this and the window of opportunity created, by the time it will take to leave the EU after Article 50 has been triggered, to assess and mitigate potential risks to income and asset values of reduced Government support.

Early indications are that farm support may, post Brexit, continue but it is likely that there will be less money available. This will be more targeted towards the current ‘Pillar 2’ type areas including the environment, landscapes, rural economic and social infrastructure, flood mitigation and public access.

FIGURE 1
Market activity across Great Britain

Source: Savills Research
In the short term, there are factors that suggest the additional downside (over and above our current forecasts) of Brexit on farmland values may be muted. Agriculture tends to do well in recessions (if this occurs).

In addition the weak pound creates opportunities for overseas buyers. Both of these factors, along with the reduced supply driven by uncertainty, may help support farmland values.

Our research shows that, during the first half of 2016, the average value of farmland across Great Britain fell by just under 2%. The average downward trend continues to be led by arable values which are more exposed to pressure from low commodity prices. With the exception of Scotland, where average values have remained stable since 2013, all regions across England and Wales have, on average, recorded negative value growth this year.

However, the market remains diverse and a wide range of prices are being achieved depending on local demand. Anecdotal evidence suggests that deals agreed prior to the Referendum are largely being honoured (one or two buyers are seeking to renegotiate but where successful only by a moderate amount) and a number of new deals have been struck since 24th June at levels anticipated beforehand. The fundamental factors driving the value of UK farmland remain: supply is historically low, the product is finite, there are competing land uses and a variety of ownership motives will all support farmland value growth in the long term.

**Farm Rents**

Farm Rents

In the event of a significant reduction in farm subsidies and therefore incomes, the negative effect is likely to be greater on rents than land values, as the relationship between rents and agricultural profitability is stronger than for land values, where ownership motives extend beyond farm income generation. However, we expect the scarcity of land to rent will moderate any downward pressure on Farm Business Tenancy rents.

We are constantly monitoring the situation and will update our analysis as more information becomes available.

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“Scarcity of land to rent will moderate any downward pressure on Farm Business Tenancy rents”

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