UK entitlement trading market report

2017

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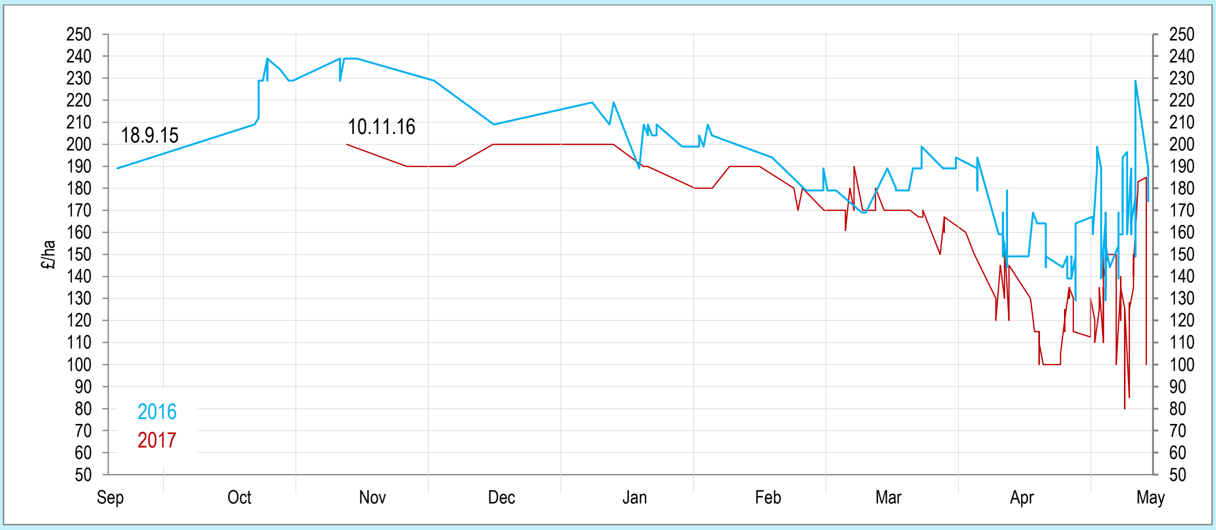
UK ENTITLEMENT TRADING MARKET REPORT – CLAIM YEAR 2017

How our Sale Price graphs are prepared

As in last year's edition of our end of trading season market report, we are publishing again raw data graphs illustrating in detail how the different regional Entitlement markets behaved during the 2017 trading period, which for England with us started in October 2016, and ended on the 15th May 2017. Because we use only raw data, there have been no adjustments such as averaging prices for a week or a day, rounding up or down, and any contributions towards the vendor's sale costs made by purchasers of small lots on top of the purchase price per entitlement are excluded. These graphs show the results of each individual transaction.

1. ENGLISH NON-SDA

Graph A – Non-SDA VAT registered sales of >10 ha



1.1 General market factors in 2017 trading period

1.1.1 *2016*

The 2016 market for Non-SDA with VAT started at £200 at the beginning of September 2015, and on average rose to £250, and then dropped on average to as low as £150, and ended up near £200 per ha. The average price for 2016 trading was £192 for all VAT lot sizes. The 2016 market had incorporated an element of discount for the possibility of a Brexit vote.

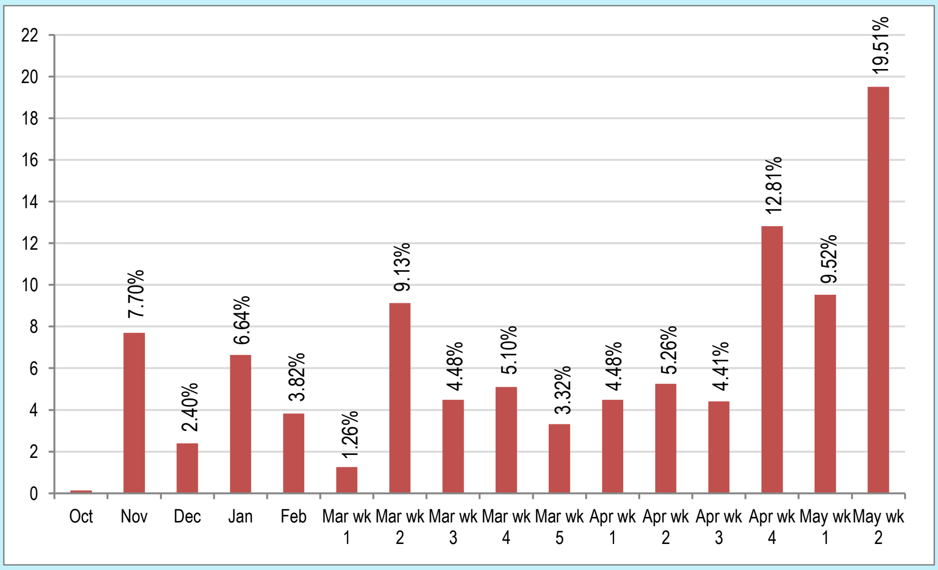
1.1.2 *2017*

Following the Brexit vote in June last year, 2017 trading started at the beginning of October 2016. The pound had rallied by then following its devaluation immediately after the Brexit vote and was €1 = £0.86 (just over the newly confirmed 2016 exchange rate of €1=£0.85228) which indicated a claim payment of £214.61 per ha, which was a 17.6% increase on the 2015 claim payment. In August of 2016 the UK government issued a statement confirming that *"Mr Hammond also guaranteed that the current level of agricultural funding under CAP Pillar 1 will be upheld until 2020, as part of the transition to new domestic arrangements".* Because payments for the 2019 scheme year come from the EU 2020 budget, Mr Hammond's statement therefore is only covering the 2019 scheme year (which has a payment window up to June 2020). Some considered this would mean we had three years' of BPS claims left to go (2017, 2018 & 2019), however Pillar 1 funding could still be paid out in a different way, and therefore everything continuing as it is after 2018 (once the 2 year Brexit consultation period has completed and we are taken out of the EU) has not been "nailed to the mast" as yet. Of course, practically, most people feel the Government logistically will not have much option but to use the existing area payments system for 2019 also, if not for longer. Trading therefore started knowing that there should be at least two more payments (2017 & 2018) from any purchase of entitlements made for the 2017 scheme year, and that the exchange rate would likely be in the farmers' favour.

1.2 General market analysis

1.2.1 With the RPA online system now established for most entitlement transfers, the paper RLE1 transfer forms became redundant, knowing that the RPA would not process these until they had first processed all the online transfer applications, and therefore completion of online transfers would take place months before any paper transfer applications, with vendors subsequently receiving their money that much earlier. The online transfer system, however, was not expected to go live until well into 2017 after the RPA had completed processing the bulk of the 2016 BPS claims, which was later compared with previous trading seasons when paper RLE1 forms could be submitted that much earlier from August/September. There was of course also now the uncertainty as to what would happen after 2018. With the expectation of a claim payment at around £215 per ha for 2017, if the then current exchange rate continued, trade for 2017 started steadily at £200 per ha, dipping down by the end of November to £190, but recovering again before Christmas and peaking at £205 at the start of January 2017. Subsequently there was then a gradual decline in prices throughout January to £180, and by the end of February the price was £170. There was a short-lived recovery at the beginning of March up to an average of £180 before the price then dipped again as low as £170 although this was a mixed period with prices oscillating between £170, £180 and £190. By the end of March prices weakened again to between £150 & £170, and at the beginning of April prices weakened further to £150 and then down to £140-150. By mid-April some sale prices went as low as £100. Within the last few days of the month, however, prices recovered to between £130-140, although they were back down to £115 by the beginning of May. The final two weeks, which represented for our firm 29% of all Non-SDA traded for the season, saw the usual rollercoaster rise and fall in prices, peaking at £194, and going as low as £80.

Graph B – Percentage volume of all Non-SDA sales in months and weeks

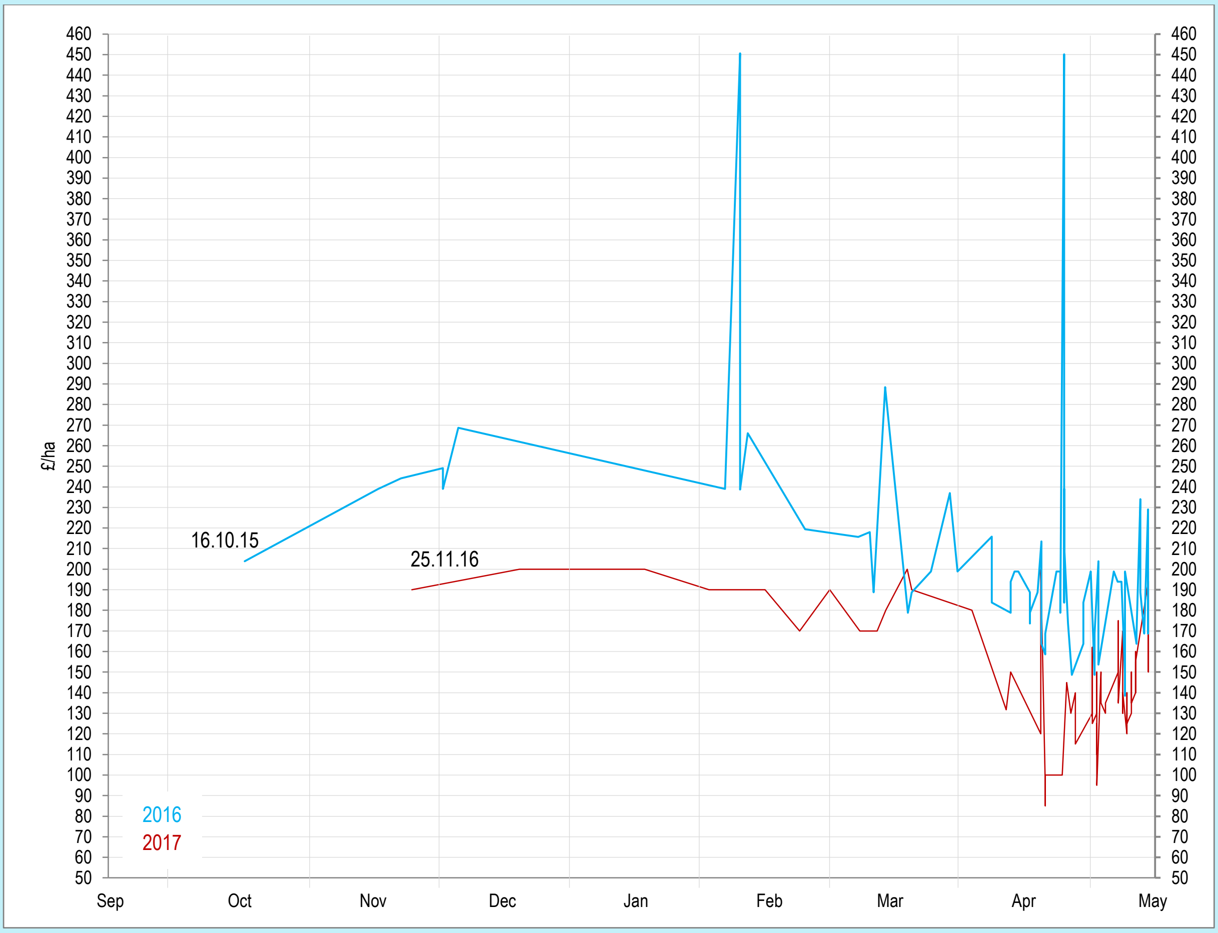


1.2.2 If one looks at the volumes traded, there has been a greater concentration of trade in the last few weeks. For example, 41.84% of all the Non-SDA entitlement sales brokered by us during the whole 2017 trading period were agreed in the last 3 weeks. This volume of trade in the last few weeks, and generally the firming of the price again towards the end, will be important factors when trying to predict the 2018 market.

COMPARATIVE AVERAGE SALE PRICE GRAPHS FOR ENGLAND REGIONS

Scheme Year	2012	2013	2014	2015		2016	2017
				1st window	2nd window		
Non-SDA (/ha)	£230	£218	£230	£130	£98	£192	£144
SDA (/ha)	£209	£193	£260	£153	£147	£213	£208
SDA-Moorland (/ha)	£34	£43	£53	£58	£64	£69	£61
Naked Acres (/ac)	£50	49.50	£53	-	-	-	-
Hosting (/ ac)	-	-	£47	-	£53.50	-	-

Graph C - Non-SDA VAT registered sales of <10 ha



1.3 Why did the market price weaken between January and April 2017?

1.3.1 The most obvious answer most people would give is that the uncertainty following the Brexit vote depressed the price. There was a guaranteed two further years' of payment, but the threat of leaving the EU (where the French traditionally lobby for and create the pressure for high agricultural subsidies) could now lead to subsidies being scrapped altogether in the UK. Whilst the future of entitlements is always topical for farmers looking to buy, it is questionable how much this really puts off someone with excess land buying when they will make a profit within a matter of months, and more than double their money within 18 months. Although there are some, few now consider it economic farming without claiming the Basic Payment. As the pound remained devalued during the first four months of 2017, at similar or a better exchange rate than the 2016 exchange rate of €1 = £0.85228 (see Graph H), if there was to be a similar payment, why did the price fall lower than 2016?

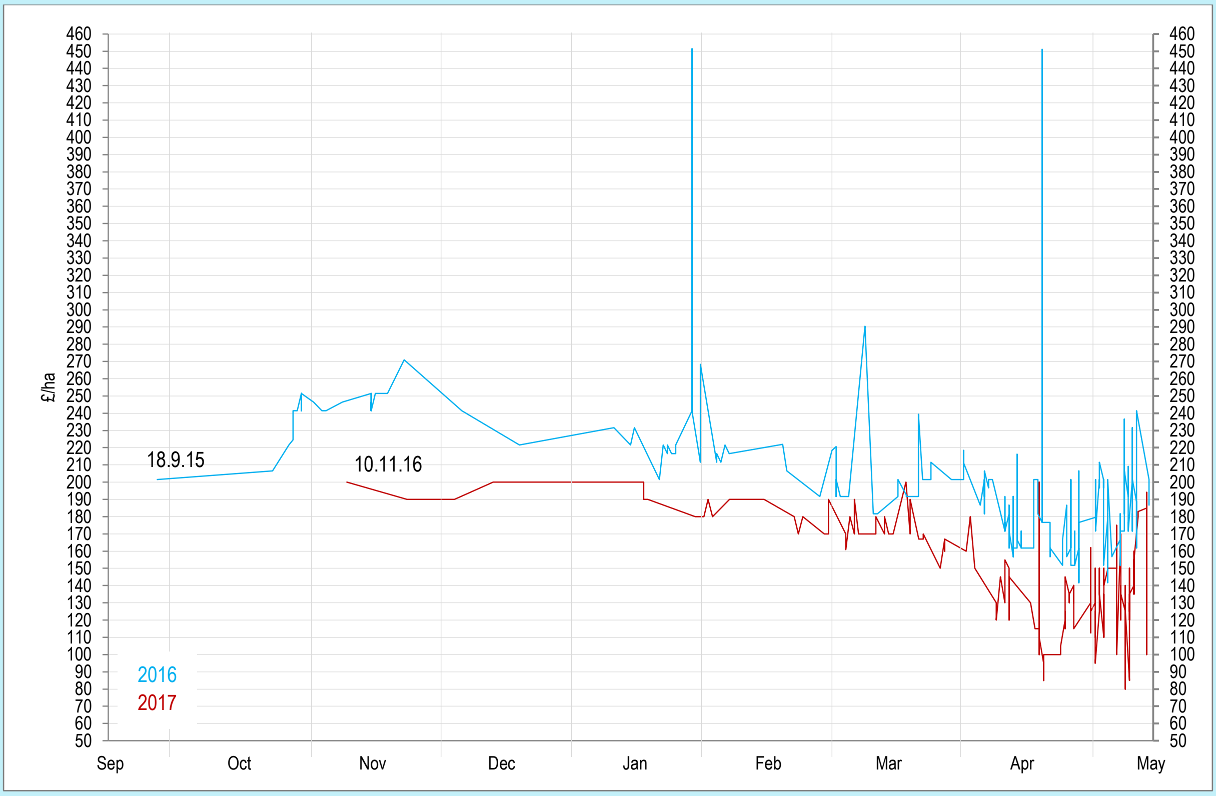
1.3.2 In the 2016 trading period the price before Christmas had risen to £250, and thereafter showed a similar rate of decline as in 2017, although of course from a higher starting point, until April 2016. With a market that is selling something that financially is a "no brainer" for the buyer with excess land, the over-riding influence has always been supply and demand. Initially, as the market declined in the first four months of 2017, theories were debated as to whether there was an over-supply of entitlements. This was the first BPS year where people could lose entitlements they had successfully claimed on in 2015, if they had not claimed on all their entitlements in 2016. Subsequently one had had maybe a year where farmers could have been holding entitlements but not using them. This maybe caused the oversupply, as it did in the 2015 scheme year when the average sale price in the second window of trading dropped to £98 per ha following many years of farmers rotating unused entitlements to keep their surplus "live". Another theory, which is always impossible to establish due to the lack of capability with the RPA computers, is that New Entrants and Young Farmers had been allocated new entitlements, and even with many entitlements being confiscated to the National Reserve due to them not being used in 2015, had increased England's total number of entitlements. Farmers appear to have made the best use of the opportunity to reorganise their affairs, allowing their younger generation to take on the business responsibilities and claim extra entitlements, while they sold their own, causing the oversupply. Characteristically, apart from in the unusual 2015 claim year, it is considered that supply and demand is usually well balanced, as by the end of the trading period with us few are still wishing to sell, and few have not been able to buy. However, maybe the new entrants and young farmers taking full advantage of this opportunity had unbalanced the market.

1.3.3 The contra-argument to there being an oversupply was that maybe people were just leaving it later and later to buy their entitlements. Since 2008 when electronic online SPS claims first started being accepted by the RPA, farmers have gradually become more familiar and used to their claim forms/details being available online. And following the debacle of the 2015 BPS first claim year where the online system failed and everyone had to submit paper claim forms, the experience in 2016 was much better and as a result farmers felt in 2017 more able to rely on the ability to make a claim online, a process which is that much easier and quicker than the old paper forms system, allowing everyone to leave decisions about whether to buy or sell entitlements closer to the deadline.

1.3.4 In the end, with the rush of demand in the last few weeks of trading, the oversupply theory was "blown out of the water", and again the year ended with few having not bought or sold as they wished. It appears the equilibrium of supply and demand therefore was maintained as in previous years. The fluctuation in prices also indicated that there was not an oversupply, with the average price per deal on the last day being over £166, and, ignoring the lowest price deal at £100, this average was nearly £175, with the highest price being £194. This was not an indication that the market ended up oversupplied.

1.3.5 Farmers involved with Commons claims still did not know the effect of the Minchinhampton case with the possibility of an allocation of more entitlements, payments of compensation, or in some cases maybe even a reduction in entitlements.

Graph D - Non-SDA VAT registered sales – all lot sizes



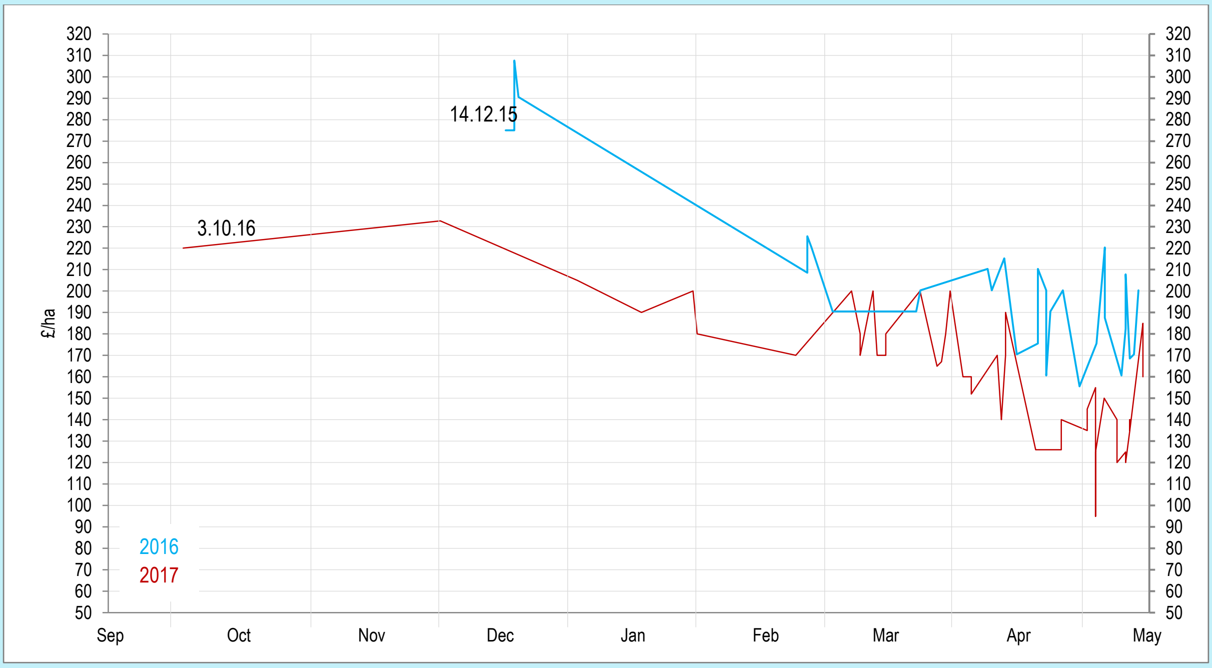
1.4 Summary

Having established there wasn't an oversupply of entitlements, and if the market works on supply and demand only, why did we end up with an average price of £144 for Non-SDA VAT entitlements in 2017 compared with £192 in 2016? A noticeable change in tone was evident in 2017 following the Referendum in June 2016. There appeared to be less enthusiasm and interest. This was evidenced by a further decline in the number of agents wanting to get involved in trading entitlements, and farmers taking a shorter term view and treating the process of buying and selling, and indeed making their BPS claim, as needing less thought, and needing less time for the decisions required, with the online system encouraging last minute claims and entitlement transfer applications. Where in the past there had been changes in the subsidy scheme, the prospect of leaving the EU altogether may have encouraged less attention for something that may not be here for the long term. Whether the mood change is a harbinger of what will happen in the future, or was just an initial knee-jerk reaction sense of shock following the Brexit vote, we will have to wait and see. We will also have to wait and see in the 2018 trading period whether this mood continues, and whether in hindsight it will be seen as a national mood change felt by all UK businesses, rather than just a change in specifically the agricultural market perception.

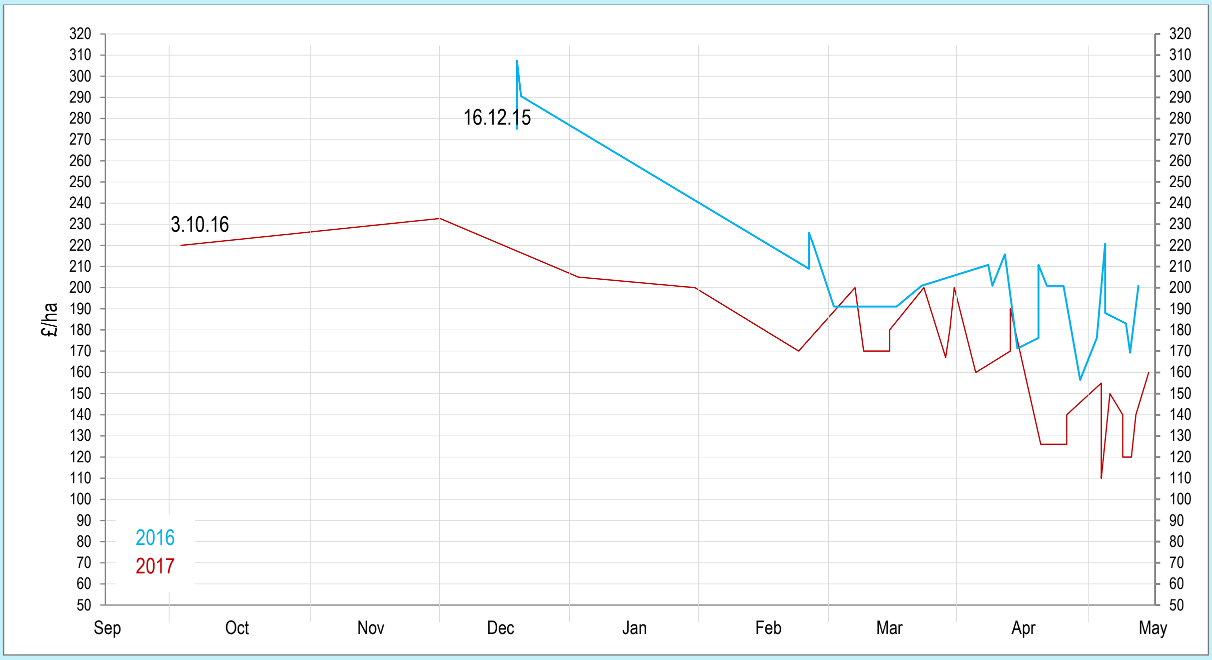
2. ENGLISH NON-SDA NON-VAT

2.1 The entitlements market has usually paid Non-VAT registered vendors a small 10% premium compared to the Vat registered sale price, if purchased by a non-VAT registered buyer. However in the 2017 trading period there was a marked disparity between the number of Non-VAT vendors on our books who far outnumbered the non-VAT buyers, and often the vendors had to accept the same prices as were being offered to the VAT registered vendors. However the non-VAT sellers were often offering only small lots, and where buyers were also looking for smaller lots, and there was an understanding from most buyers that it was not unreasonable to pay a little more per entitlement for a purchase of, say, 5 entitlements, compared to what they might pay per entitlement when buying 30 entitlements, due to the sale fees being charged to the vendor per sale agreed, and so on average higher prices were achieved.

Graph E - Non-SDA Non-VAT sales – all lot sizes



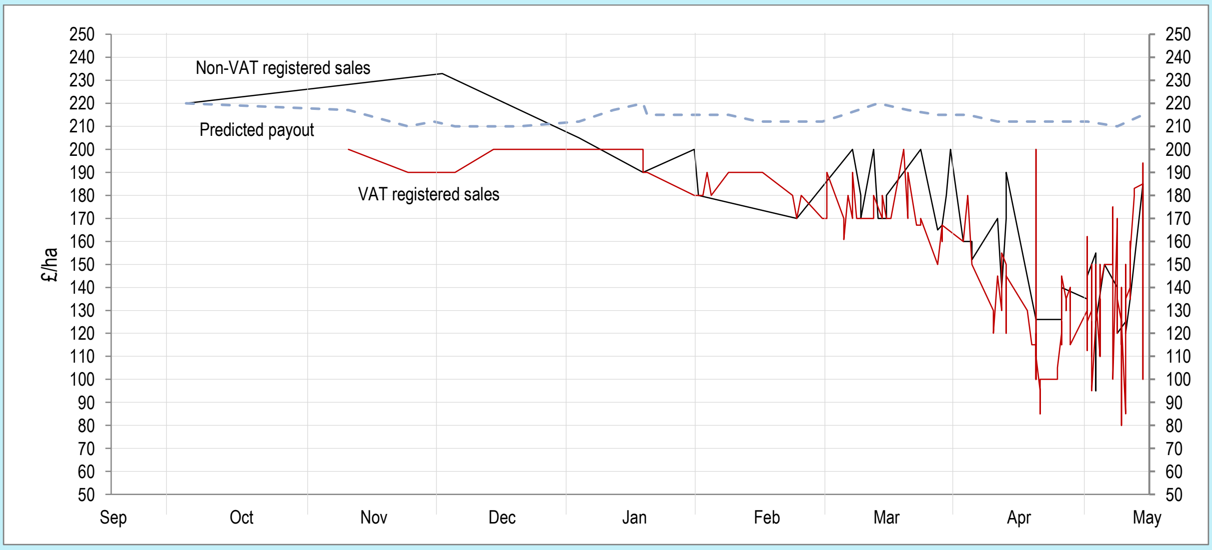
Graph F - Non-SDA Non-VAT registered sales <10 ha



2.2 The market started in October 2016 with sales at £220 and rose briefly as high as £233 in December, however in January the price came back to around £200 and fluctuated between £170 to £200 through to March. From April the price started to roller coaster up and down on a daily basis, and could vary between £140-190 in the same day, depending on lot sizes, whether the buyer was non-VAT, and the vendors' general attitude to selling (i.e. were they in a hurry or prepared to hold out for more). By the end of April the prices achieved varied between £126- £140. In the first week of May, the price dipped as low as £95 per entitlement, but was generally around £110-140 until the last few days, when the final few sales were between £160-185. Therefore overall the average price per ha for Non-SDA non–VAT entitlements was slightly higher than the VAT registered entitlements, coming out at £163 per entitlement over the whole trading period.

Graph G - Non-SDA Non-VAT registered sales >10 ha

Graph H – Non-SDA – 2017 - All lots against predicted payout



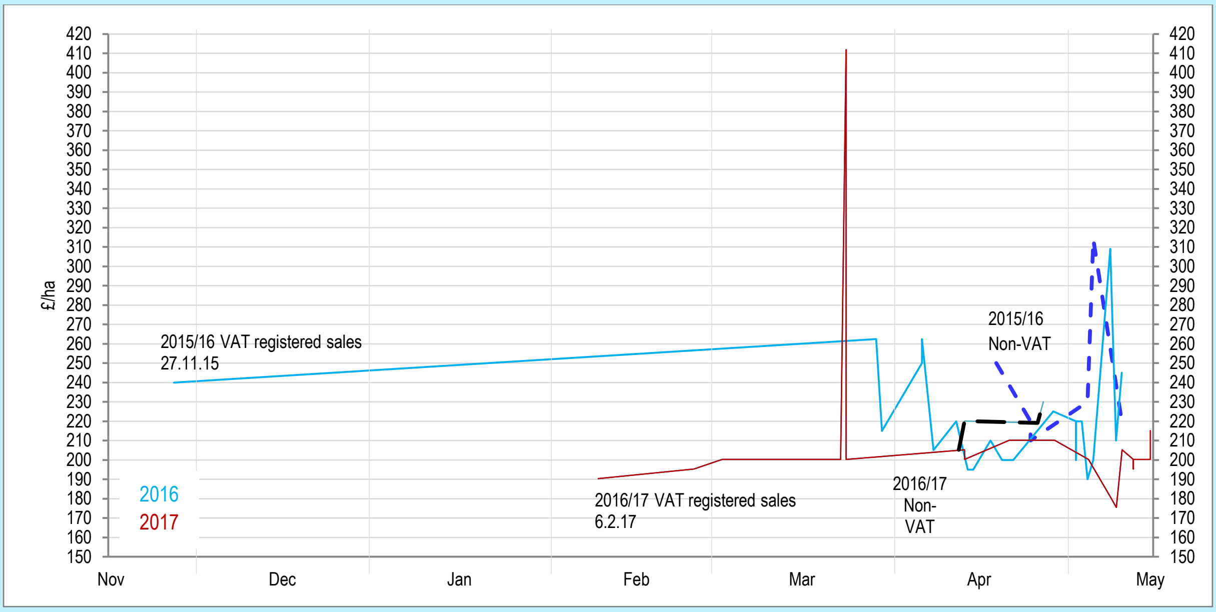
3. ENGLISH SDA & SDA MOORLAND

3.1 SDA

3.1.1 SDA trade for 2017 did not get started until early February this year, with prices starting out at £190 plus VAT, rising to £200 by the end of the month, with fairly large quantities being sold. The market was slower but steady in March, and the price held firm with the usual shortage in supply bolstering prices compared to the Non-SDA market, despite the BPS payment being slightly less per ha.

3.1.2 In April demand picked up, and the price firmed a little further with most sales being agreed at the higher end of the range £200-210 plus VAT (with prices of £205-230 being achieved for some Non-VAT vendors), depending on lot sizes. However supply also increased, and by May there was (unusually) a larger supply than demand. Prices therefore dropped to as low as £175 plus VAT for some lots at the beginning of May, however vendors who were not going to lose their entitlements in 2017 were reluctant to drop their prices, even with the surplus on the market, and in the last week prices for sales agreed were at £200-215 per ha.

Graph I - SDA – all lot sizes – VAT and Non-VAT registered sales



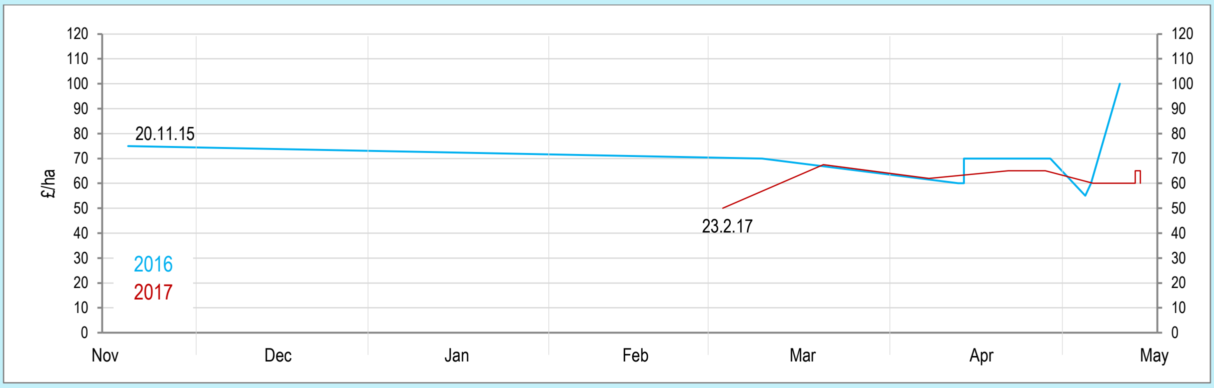
3.1.3 From our calculations the average price paid for SDA entitlements over the whole trading period was £212.50 (compared with £213 in 2016) with, in the end, very little difference between the prices paid for VAT and Non-VAT entitlements. There was also a marked increase in the number of SDA entitlements traded by this firm, which was 64.5% higher compared to 2016.

3.2 SDA Moorland

3.2.1 As with the SDA, trade started at the end of February 2017, with the early sales of larger lots achieving what later turned out to be the lowest price of the season at £50/ha plus VAT. Throughout March and April trade was steady, and with the usual shortage in supply and strong demand, the sale price jumped up to £60-67.50 per entitlement. In May the demand for moorland entitlements remained high, although with supply unusually more or less matching demand, and sales continued to be agreed at £60 until the last few days when, sales were agreed at £65.

3.2.2 There was also, unusually, a small amount of leasing this year, which attracted an average price of £45 plus VAT.

Graph J - SDA-Moorland



3.2.3 From our calculations, the average price paid for SDA Moorland entitlements in 2017 was £65 plus VAT, a small drop on the average price achieved in 2016 of £69 plus VAT. There was however a huge increase in the amount of entitlements being transferred over this scheme year, with this firm seeing an increase of 449% compared to 2016.

4. LEASING, HOSTING AND NAKED ACRES

Apart from some leasing of Moorland SDA, our firm did not carry out any leasing, hosting or naked acre letting in 2017. Although the outcome of the King v DEFRA case in 2016 validated the naked acre letting arrangements (read more here) there was no appetite for any of these arrangements, most likely due to the knee-jerk reaction to the Referendum result in June 2016 reducing interest in the retaining of entitlements. This however may well change if there is an announcement that entitlements will have an impact on whatever the next scheme is going to be.

5. OTHER UK MARKETS REPORT

5.1 Wales

5.1.1 This year's trading period was plagued by an over-supply of entitlements. Although it is impossible to establish exactly why this was the case, a combination of Brexit uncertainty and the prospect of receiving entitlements for 'free' from the National Reserve meant that supply outweighed demand. This over supply resulted in the market becoming flooded with entitlements of various values, leading to multipliers falling well below 1 times the 2017 payment value, with the lower value entitlements getting better multipliers generally. Purchasers were wary of falling prices and were therefore empowered in the declining market to make speculative offers. These tactics meant that vendors who would have lost their entitlements (due to the two year usage rule) had to either accept the low prices being offered to them or search for Naked Acres to activate the excess entitlements. This situation resulted in Naked Acres trading for up to £85 an acre, although some early lettings were around £45-50 per acre.

5.1.2 Trading ended on the 2nd May with a large number of vendors failing to sell their available lots. Given the apparent over supply in 2017 it is anticipated that a significant number of entitlements will be clawed back to the National Reserve, addressing the perceived imbalance within the market. A similar situation could however arise again in 2018 as more farmers seek to benefit from the Young Farmer scheme before the end of BPS in 2019.

5.2 Scotland

5.2.1 Entitlement trading in Scotland has been far more active compared to last year. Despite the 50% siphon on the payment value of the entitlements, which is applied to all without land transfers, entitlements were exchanged with an average multiplier of 1.25 times the 2018 payment value for all three of the Scottish payment regions. "With land" transfers of entitlements have become more common since the introduction of the siphon, as vendors and purchasers of land are more likely to transfer entitlements through private negotiation, rather than going to the open market and incurring an immediate value reduction of 50%.

5.2.2 The supply of entitlements was again greater than demand, resulting in some vendors missing out on deals. This is often associated with the shorter timescale imposed by Rural Payments and Services, whereby entitlement trading ends on the 2nd April, six weeks before the claim submission deadline of the 15th May. Due to the convergence to a flat rate by 2020, entitlements that had once had a particularly low value are now increasing in value to the national average.

5.3 Northern Ireland

5.3.1 Similar to trading experienced in 2016, the Northern Irish market continued to show significant demand for high value entitlements. This trend seems to differ from the norm in Scotland and Wales due to the smaller average holding size in Northern Ireland compared to the other Regions. These high value entitlements were achieving multipliers in the region of 1.5 times the payment value.

5.3.2 Demand for low value entitlements was also present as claimants with large holdings are able to generate a significant income from a large number of low value entitlements. The supply of low value entitlements is believed to have been sourced mainly from smaller holdings who were seeking to benefit from the Young Farmer Scheme. These farmers have been selling their low value entitlements on the open market before applying for entitlements from the National Reserve as Young Farmers. Low value entitlements traded achieved multipliers of up to 1.2.

6. OTHER ISSUES IN 2017 SCHEME YEAR

6.1 RPA online

6.1.1 The 2017 RPA online entitlement transfer system, although generally improved compared with 2016, and having much clearer entitlement screens now showing a history, was not without the usual glitches which in some cases caused problems for our clients. An early glitch was due to the instigation of the online automated "confirmation of transfer" message system, which for the first batch of online transfer applications submitted at the beginning of March, sent out confirmation of transfer messages when in fact some transfers were not complete. It was only due to our regular contact with the RPA RLE1 Entitlement Transfer Team that brought this glitch to our (and the RPA's) attention, and resulted in a "fix" being created by the RPA a few weeks later.

6.1.2 Another issue that came up was where the confirmation of transfer message would refer to entitlements being available for the 2015 or 2016 scheme year, and not confirming they were available for 2017. As it turned out, this did not necessarily mean the entitlements were not available for 2017, but related to whether a farmer had activated all of his entitlements in 2015 or not. As a result of this confusing message, further confirmation had to be obtained manually direct from the RLE1 Entitlement Transfer Team before we could be sure the purchaser had received live entitlements he could activate for 2017, so we could then complete on the transfer.

6.1.3 A further issue was where online transfer applications appeared to go through, but when the confirmation of transfer message was not received within the usual 2 week period, it would be noted it was stuck in the "pending" tab on the vendor's entitlements screen. Following further investigation with the RPA it was established that this could be because:

a. either the purchaser was not recorded on the online system as an active farmer, or;
b. the vendor's entitlements were in Post Payment Adjustment (PPA) as a result (in many cases) of them querying the subsidy they had been paid in 2016, or their eligible area for 2015/2016 was being reassessed following an inspection, or alternatively;
c. the vendor had not yet been paid for 2016 due to other issues. If there were any queries on a vendor's previous years' claims, then their entitlements were marked as unconfirmed on the RPA online system, and therefore could not be transferred until the query was resolved.

6.1.4 Dealing with "glitches" was further complicated by the RPA changing the way agents could contact the entitlement transfer team, which previously had been via the telephone, which had been most helpful in previous years. A new policy meant queries could only be submitted by email, albeit by a special email address for agents direct to the entitlement team. This caused some delays in getting a response to queries.

6.2 € to £ Exchange rate

With the Euro to Pound exchange rate over February/March/April/May 2017 ranging between €1 = £0.85-0.88, similar or better than the 2016 exchange rate of €1 = £0.85228, and at least two further years of BPS payments guaranteed as we approached Brexit, confidence was fairly high in buyers that this favourable exchange rate would remain (or even improve) by the end of September 2017 (when the UK government will announce the exchange rate for 2017 BPS claim payments). The UK government still had not been able to give any firm guarantees about BPS payments beyond the 2018 claim as the Brexit negotiations had not completed, but the Chancellor Philip Hammond had guaranteed in August 2016 that the current level of agricultural funding under CAP Pillar 1 will be upheld until 2020, as part of the transition to new domestic arrangements (please click here for further details) although how such payments would be distributed was still unconfirmed i.e. would the Government still use entitlements to distribute the Pillar 1 monies.

For previous year's trading graphs and results please click here and scroll to the bottom of the page, then click on the graphs you would like to see.

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