

The land and entitlement market after Brexit shock

After the shock of the referendum and then the acute uncertainty in the weeks following the result, the significant, if not long-term benefits of the de-valued pound are starting to kick in.

They are also providing some idea as to the type of environment farming will be operating in after leaving the EU, which will, perhaps, be more dependent on sterling's value.

It is impossible to extrapolate with any sense the future from the market conditions that applied before we entered the EU, as world trade is very different from over 40 years ago.

In the post-war environment leading up to our entry into the EU, the Government, having experienced our vulnerability as an island, with rationing and food shortages, was strongly supportive of UK farming. This support was then continued by the EU and driven by French farming to today.

The question is what is the motivation for the UK government to support farming going forward? At the time of writing - July 25 - we wait for Andrea Leadsom's policy on future UK subsidies.

The devaluation of the pound will increase interest from foreign investors in land.

With the possible ongoing boost in farming incomes, both from commodity prices and also a likely increase in the Basic Payment (due to the Euro exchange rate) it may be that land values will continue their only gentle decline or indeed stabilise.

The farming industry has always shown an anti-cyclical tendency compared with the rest of the economy.

While not wishing it, if the general economy does go into recession, farming tends to do well. This has been the case since the financial crisis in 2008 up to last year, and following the Brexit vote, there is

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now perhaps a better chance that this trend will be re-established at least until we actually leave the EU.

During this period it is likely we will see, again, the "double-whammy" of increased commodity prices and an increased Basic Payment from the EU.

Some say this period could continue for many years, albeit currently fiercely discouraged by some of our EU partners. However, this still does not remove the uncertainty of what will actually happen the day after we leave.

The Bank of England's reaction to the referendum result and an earlier than expected new Prime Minister have helped. If the worst happens to the general economy, as in 2008, there could be an increasing investment in land.

As every year, we are now receiving many calls from those involved in tenancy negotiations this autumn asking what effect Brexit will have on Entitlement values. To date, no trading has taken place in the open market, and therefore we can only look to last year and what has happened since with Brexit.

Our UK Entitlement Trading Market Report for 2016 sets out our trading record and reports (if you would like a copy please email us) which shows that the average price for English Non-SDA Entitlements for 2016 was £192 per ha.

The market started off at £190-200 and effectively ended up on average at the same sort of levels during the final weeks of trading. The 2016 market had discounted for the chance of Brexit. This discount will increase due to the "real" uncertainty now created.

We are now also experiencing the "real" effects of the



Devaluation of the pound will see increased interest in land from foreign investors

PICTURE: ROSIE SPOONER

devalued pound, and at the time of writing it is 13% lower against the Euro than it was in September 2015 when the exchange rate for the 2015 Basic Payment was set in Sterling.

Whilst it doesn't yet directly affect 2017 trading, there could be this type of bonus for the 2016 payment if the pound stays at this level until the end of September.

It is of course some time until the 2017 BPS will be set in sterling (September 2017), but the market has had a tendency to work a year behind on pay-

ment values when the trades actually take place. Our prediction is the trade for 2017 Entitlements should start between £190-200 per ha for English Non-SDA.

The good news cancels out the bad news and last year remains the best indication we have for this year. We now know it is reasonable to assume there will be at least two more payments (2017 and 2018) from any purchase of Entitlements made now.

Subsequently if you have the money and the land at your

disposal it continues to be a "no brainer", as there is probably nothing else you could invest in which will double your money in two years. If DEFRA come out with a strong policy and commitment to providing UK subsidies after Brexit, we could however be looking at a much stronger market than last year.

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