SCOTTISH LAND COMMISSION
COIMISEAN FEARAINN NA H-ALBA

Scotland's Rural Land Market

Review of 2022 Insights

Developing a clear picture of activity in Scotland's rural land market, while challenging, is vital to informing effective policy and responsible practice to support Scotland's ongoing programme of land reform. This is particularly crucial as Scotland's rural land continues to remain in focus as a key asset in tackling climate change and reversing biodiversity loss – as well as being the foundation for agriculture, commercial forestry, and a range of other activities.

In our recommendations on Natural Capital and Land of June 2022, the Commission undertook to work with partners to develop regular land market reporting. Working with RICS, the Commission has been building on the success of last year's Rural Land Market Insights Report, and commissioned SRUC to investigate activity in the land market through calendar year 2022 to produce a current Insights Report.

This work primarily rests on extensive interviews with agents and experts working in the rural land market, but also draws upon material published by the larger firms.

In line with the practice adopted last year, the intention is for this Insights Report to be followed up by a Data Report in the coming months. This briefing includes preliminary headline figures from our developing data work, based on Commission analysis of data from the Registers of Scotland, which are subject to revision.

What's happening?

Overall, the rural land market through calendar year 2022 continues to vary significantly by sector and region, but remains characterised by high demand and low supply across the board.

Record high values have prompted more landowners to sell, with supply of land to the market noticeably higher than in 2020 and 2021. Even with more land coming to market, land values continued to rise through 2022, albeit at a slower pace compared to 2020 and 2021.

Commercial forestry interests remain the biggest influence in driving land values higher, particularly in upland areas, and increasingly in mid-grade agricultural land. Corporate and institutional investors are most active in the estates market, but now appear more interested in acquiring land as a financial asset and are less explicit about natural capital investment – or other land uses – as a motivation.

Off-market, or private, sales still make up a significant proportion of all transactions. While off-market/private sales have decreased in the estates market, there has been a noticeable increase in such sales involving upland farms going to forestry. Overall, this means that while the volume and value of land transacted on the open market has increased, the number of transactions taking place privately/off-market has also increased. Better clarity should be achieved through the forthcoming Data reporting, but the Insights evidence suggests this currently sits anywhere between a third to half of all transactions.

The research also indicates that the pattern of rural landownership is becoming more concentrated. The evidence suggests that, across the board, land coming to market is being acquired by an ever-smaller number of large and expanding forestry and agricultural interests; as well as individual, corporate, and institutional actors building portfolios.

Farmland

The prime arable land market remains dominated by large agricultural buyers and commercial farmers, while mixed and upland farm units attract a range of different interests.

Rising commodity prices have been a double-edge sword for many farming businesses, affecting individuals' confidence in the market – high milk prices have prompted dairy farmers to be more confident and active in seeking out opportunities to expand, while beef and sheep units are more likely to be sold.

Wider influences in the farmland market include uncertainty over future agricultural support, business debt, and succession issues. Particularly relating to succession issues, more farmers are taking advantage of high land prices to exit the industry, and in many cases to divide the proceeds amongst their children.

36,632
hectares of farmland changed hands in 2022

233
transactions in 2022

£15,149
highest per hectare value recorded

Estates

The estates market began the year seeing a continuation of the frenetic pace of activity from 2021; however, activity had noticeably moderated towards the end of the year.

More landowners were taking the opportunity presented to realise high land values through sales, increasing supply to the market, however, demand was still the driving factor across a range of differing motivations, maintaining record high values.

Natural capital investment, and wider action to satisfy ESG commitments, is the biggest single motivation for estate purchasers, particularly where there are extensive areas of degraded peat. The research indicates that degraded peat is attracting significantly higher prices than healthy peat, and that some buyers are speculating on substantial future returns from peatland restoration and yet to be developed biodiversity and other ecosystem service payments.

Corporate and institutional investors are particularly active in the estates market, although unlike previous years, motivations are much more clearly centred around land ownership as a financial asset, store of wealth, and inflation hedge, and less overtly as a route to meeting ESG goals – for such buyers land use is a secondary consideration, and a decision to be made at a later date.

73,761
hectares of estate land changed hands in 2022

33
transactions in 2022

Forestry

Commercial forestry for timber production remains the biggest influence in the land market, and continued to be strong through 2022.

Activity did reduce towards the end of the year as the timber price fell; however, the research suggests the long-term outlook for timber indicates forestry land values will continue to rise.

For the first time, the research clearly describes competition for planting land between commercial forestry for timber production, and afforestation for natural capital and carbon sequestration. Regardless of forestry type, forestry buyers are increasingly targeting mid-grade agricultural land, and outcompeting agricultural buyers.

The research also indicates that there is more land, particularly smaller upland farming units, being sold privately/off-market to forestry buyers than in previous years.

28,701
hectares of forestry changed hands in 2022

78
transactions in 2022

£52,334
highest per hectare value recorded

Key findings

- The rate of increase in land values has noticeably cooled as potential buyers exercise greater caution in making purchases, especially where related to natural capital investments.
- Recent higher land prices have prompted a few more owners to sell, slightly increasing supply.
- Commercial forestry continues to be the biggest driver of increasing land values, particularly in upland and non-arable agricultural land.
- Natural Capital investment motivations remain widely discussed and are a key driver in the market.
- The proportion of land being sold off-market/privately may have slightly reduced across the board as sellers seek to make the most of competitive market conditions; however, more smaller transactions appear to have been taking place off-market/privately.
- Corporate and institutional buyers are still very active and a driving force in estates, upland, and marginal agricultural land, especially where peat is present.
- Corporate and institutional buyers are increasingly interested in land as a financial asset and inflation hedge, with less immediate interest in land use.
- With the exception of prime arable, distinctions between land classes and uses are becoming increasingly blurred as forestry, natural capital, and agricultural buyers all chase the same land.

Emerging themes

Beyond the key findings of the research, there are a number emerging themes that are having an influence to a greater or lesser degree on market activity – but at this stage it is difficult to tell whether they will become significant in future years:

- Looming capital gains rollover deadlines are influencing agricultural land purchases, with farmers who have sold in the past couple of years increasingly paying higher prices to make the most of the rollover relief. It is anticipated that this will become a stronger factor on land values in the next few years as those selling now seek to reinvest.
- "Natural capital" is becoming an increasingly complex catch-all for a range of different motivations, buyers, investments, and economic considerations.
- Enthusiasm for afforestation to generate carbon credits has been significantly curtailed by a combination of the experience of Storm Arwen, changes to the Woodland Carbon Code, uncertainty over future regulation, and greater financial due diligence.
- Where corporate and institutional interests are engaged in afforestation for carbon purposes, this is increasingly for insetting rather than to generate tradable credits.
- Wealthy individuals are still active in the estate market, with primary motivations around wealth preservation and rewilding – sporting motivations continue to decline.
- Succession questions are an increasing motivation for estate and farm sales. Particularly where there are multiple children and/or where no one is keen to take over the landholding, families are making the decision to sell to take advantage of high prices. It is also much less likely that one child will inherit the entire holding – equal division of wealth amongst children appears increasingly the norm.

Implications

Pattern of ownership

Market activity through 2022 appears to indicate that concentration of rural land ownership in Scotland is likely to be increasing. This is best demonstrated by the fate of family farms coming to market where in upland areas these are often bought by a small number of forestry interests, while lowland prime agricultural units are often acquired by expanding commercial farming operations.

There are a number of actors in the estates market seeking to build portfolios which also contributes to increasing concentration; however, even where estates change hands this often just perpetuates the status quo rather than moving towards a more diverse pattern of ownership.

As such, while changes of ownership increasing the pattern of concentration may happen slowly, it does mean that aspirations for a more diverse pattern of ownership and control could take much longer to achieve in the current policy and legislative environment.

Opportunities to participate

Although the rate of increase in land values may have moderated, values remain at all-time highs presenting a particularly high barrier to communities, new entrants, local business, and others lacking the financial capital to make offers on land coming to market.

Similarly, the speed at which many transactions, on- and off-market, are happening presents a logistical barrier to some potential participants, especially aspiring community landowners, who need more time to put an offer together.

Natural Capital Community Benefits

With events and increased financial due diligence significantly dampening sentiment around trading carbon credits, there has been an increased focus on insetting from corporate and institutional actors. This potentially poses a challenge to community benefit models relying on a share of income from trading carbon credits, and reinforces the need to look at how wider benefits manifest.

Related, without the intention to trade carbon credits, such insetting activities may select from the range of voluntary carbon accounting methodologies available to determine their contributions to carbon sequestration. Without a robust, regulated system of carbon accounting there is likely to be a strong incentive to select a carbon accounting methodology that provides the most favourable outcomes for any given project.

Continued...

Land as a financial asset

While corporate and institutional actors appear less certain about investing in particular land uses, their appetite for acquiring Scottish rural land remains strong. Motivations around land as a financial asset, store of wealth, inflation hedge, and similar perspectives, while noted last year, are much more clearly described in this year's evidence. Vacant possession is also less of a concern in such cases, with the presence of sitting tenants and reliable rental income often seen as a positive.

This clear expression of the primacy of land ownership, and that land use and management considerations are secondary, is a potential challenge to management-focussed good practice approaches to responsible investment. The Interim principles for responsible investment in natural capital include encouragement to consider whether ownership is necessary, encouraging investment through others including communities. However, if ownership for long term capital value is driving many acquisitions, a different approach may be needed. This may instead require more emphasis on governance and tenure models that open up opportunities for others or to share rights in land differently, as well as more robust land use planning mechanisms.

What does this mean?

These implications continue to underline the need for ongoing reform, including the measures proposed for the Land Reform Bill. The Scottish Land Commission continues work to support reform to legislation, policy, and practice. Our current work programme includes guidance and advice on community benefit in natural capital investment, work to support diversification of land ownership and work on opportunities for different ways in which land rights and governance can be shaped to share the value of, and benefits arising from, land more widely.

In the coming months we will be publishing the Land Market Data Report, alongside more analysis, policy advice, and practical guidance, to help ensure Scotland's land reform journey supports the just transition.

Read the full 'Rural Land Markets Insights Report 2023' here.