

IRISH AGRICULTURAL LAND MARKET

Q3 2018 REVIEW

Sherry
FitzGerald

OVERVIEW

Agricultural land values have risen steadily in 2018. On a weighted basis, land values grew by 0.6% during the third quarter of 2018, bringing cumulative growth for the opening three quarters of the year to 1.8%. This compares to growth of 0.6% over the comparable period in 2017.

Prices have now risen 2.5% over the last 12 months, which is the equivalent of nearly €230. At the end of Q3 2018, the weighted average price of farmland nationally, excluding Dublin, was approximately €9,275 per acre.

Prime arable land was the fastest growing land type in the quarter, with price growth equalling 0.8%. The price of prime grassland increased at a slightly slower rate of 0.7%, while marginal grassland increased by a more incremental 0.2%. Both prime arable and prime grassland have grown by 1.9% in the first nine months of the year, while prime grassland has seen the largest increase over a 12-month period, at 2.7%.

The Mid-West region saw the largest increase in prices in the quarter at 1.7%, largely driven by price increases in Tipperary. This was followed by growth in the South-East at 1.6% and the Mid-East at 0.9%. In the opening

€230

THE AVERAGE PRICE OF FARMLAND NATIONALLY, EXCLUDING DUBLIN, HAS RISEN BY APPROXIMATELY €230 PER ACRE OVER THE PAST TWELVE MONTHS.



1.8%

AGRICULTURAL LAND VALUES, ON A WEIGHTED BASIS, HAVE RISEN BY 1.8% OVER THE FIRST THREE QUARTERS OF 2018.

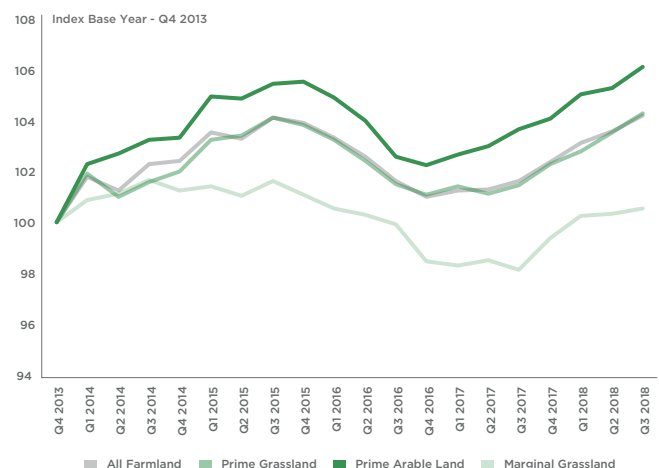


nine months of the year growth has been strongest in the Mid-East, which equalled 4.9%. The West noted the largest fall in prices in the year, with prices falling 1.3% in the quarter and 3.7% over the first nine months of the year.

By and large buyer sentiment, as reported by agents, remained stable in Q3. However, there was a slight uptick in the number of agents reporting a deterioration in confidence levels. This largely localised in the Border region, where Brexit concerns are more heightened. The spectre of Brexit continues to loom large over both the Irish economy and the agriculture sector.



Agricultural Land Price Barometer – All Ireland



Source: Sherry FitzGerald Research



ALL FARMLAND

Despite a year of weather extremes, which impacted on farming incomes, farm values improved by a steady 1.8% over the first nine months of the year. As such, on a weighted basis, the average value of farmland nationally, excluding Dublin, stood at approximately €9,275 per acre. Land values have now increased for seven successive quarters, with cumulative growth over that period equalling 3.1%.

In June, the CSO revised the NUTS 3 regions. This saw Louth move from the Border region into the Mid-East and South-Tipperary move from the South-East region to the Mid-West. As a result of this change, land values in the Mid-West rose the fastest in the quarter at 1.7%, as this price growth was largely driven by price developments in South-Tipperary.

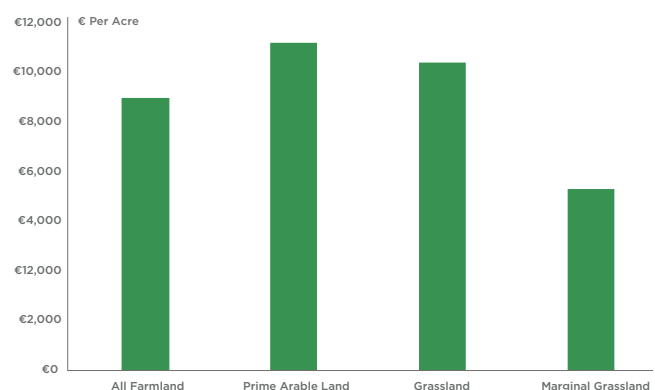
The South-East, less South-Tipperary, still saw strong growth in the quarter at 1.6%, only marginally behind the Mid-West, with increases in the value of farmland in Carlow and Kilkenny seeing values in the region rise in general. Although at a slower pace, price growth was still robust in the Mid-East and the Midlands, with growth in the quarter equalling 0.9% and 0.8% respectively.

In both the quarter and over the first nine months of the year, the West was the only region in the country to see a decline in prices. In Q3, land values slipped 1.3% in the region, while in the nine months to the end of

September prices have fallen 3.7%. The Border region, which has been impacted by the spectre of Brexit has seen activity levels decrease, however prices are largely holding constant.

In the opening nine months of 2018, price growth was strongest in the Mid-East equalling 4.1%. This was followed by 3.2% in the Mid-West and 3.1% in the South-East. Overall, land values remain the most expensive in the Mid-East, where the average price per acre was approximately €10,800. Contrastingly, the West region saw the lowest land values at under €6,500 per acre.

Land Values – Price Per Acre, Q3 2018



Source: Sherry FitzGerald Research

PRIME ARABLE LAND

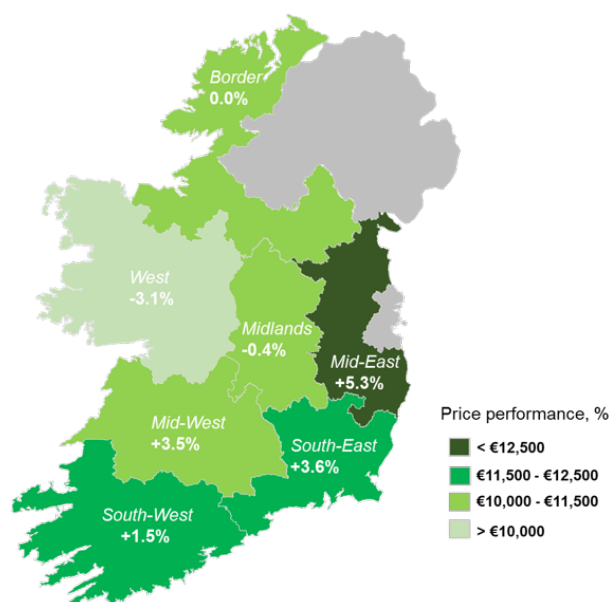
On the back of growth of 0.8% in Q3 and cumulative growth of 1.9% for the opening three quarters of the year, the average per acre price of prime arable land nationally, excluding Dublin, stood at slightly under €11,200 per acre. This signifies a rise of over €250 in a twelve-month period.

Despite crop yields decreasing in the year, farm incomes in the tillage sector grew on the back of a substantial increase in harvest prices in the cereals sector. Teagasc, in their annual review, estimates that income on tillage farms increased by 20% year-on-year in 2018. This increase was principally a result of a fall in the international cereal stock levels, which subsequently saw the value of Irish harvest prices increase upwards of 30%.

Over both the third quarter, and the first three quarters of 2018, the Mid-East has witnessed the largest jump in the value of prime arable land, increasing 2.4% in Q3 and 5.3% over a nine-month period.

On a nine-month basis the South-East, followed by the Mid-West and South-West saw the next largest increases in prices at 3.6%, 3.5% and 1.5% respectively. Over the same period, the Midlands saw prices decline at 0.4%.

Prime Arable Land – Year to date Performance, Q3 2018



Source: Sherry FitzGerald Research





PRIME AND MARGINAL GRASSLAND

Following a robust strong year in 2017, with strong increases in incomes, 2018 has proven to be a much harder year for dairy farmers. Costs increased significantly on the back of adverse weather conditions.

The snow in the early part of the year and near drought conditions in the summer, resulted in it being a particularly hard opening nine months for farmers in the dairy industry.

However, despite these adverse conditions, grassland values have increased in 2018. Prime grassland on a weighted basis, increased by 0.7% in the third quarter, and has grown 1.9% over the first three quarters of the year. Grassland values in 2018 have been helped by the returns for dairy products keeping on par with 2017 returns. The Ornuia Purchase Price Index indicates that market returns for dairy products in 2018 matched those achieved in 2017 for much of the year before tapering off in October.

Over the first nine months of the year values rose the most in the Midlands, with growth recorded at 5% in the region over the period. Notable growth was also documented in the Mid-West, Mid-East and South-East at 3.5%, 3.4% and 2.3% respectively. Growth was also recorded in the South-West but at a slightly more moderate pace of 1.6%. Again, the West noted a drop in the value of farmland, with prime grassland falling 1.1% in Q3 and dropping 3.2% over three quarters.

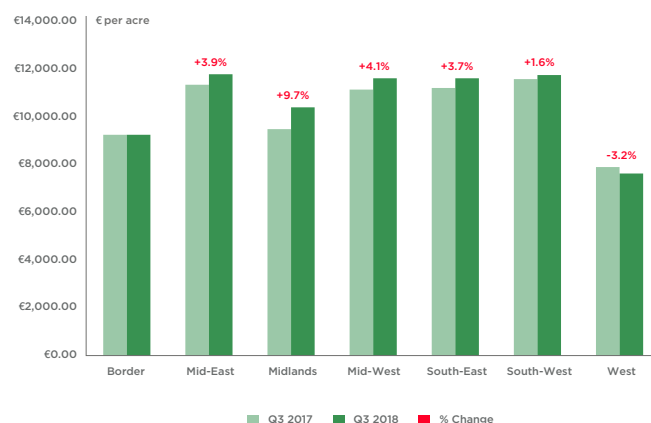
Marginal grassland grew at a much more subdued 0.2% in Q3. Over the first nine months of the year this type of

farmland increased 1.2% in value. At the end of September, on a weighted basis, the average price per acre of prime grassland and marginal grassland, excluding Dublin, stood at approximately €10,500 and €6,150 respectively.

1.9%

On a weighted basis, prime grassland rose 1.9% over the opening three quarters of 2018.

Prime Grassland – Year on Year Performance, Q3 2018



Source: Sherry FitzGerald Research

SUPPLY, ACTIVITY AND MARKET SENTIMENT

The upward trend seen in buyer sentiment at the start of the year has eased. Adverse weather conditions and increasing concerns surrounding Brexit have likely impacted sentiment. This has caused some unease amongst farmers who are considering expanding.

While 61% of respondents noted that buyer sentiment had remained stable in Q3, there was a slight uptick in the number of agents who reported a deterioration in confidence levels in the quarter. This uptick was largely localised in the Border region, where Brexit concerns are more heightened.

Agents also reported a decline in supply levels, a trend that has been evident the past number of quarters. 33% of agents noted that supply levels fell in Q3. These reports from agents correspond recent data issued from the CSO which illustrates that over the past number of years, the volume of land sold nationally has been in steady decline.

In 2015, 53,860 acres sold nationally, in comparison to 32,990 acres in 2017, which equates to a fall of 39%. Each of the eight NUTS 3 regions noted a decline on 2015 volumes. According to the CSO figures, the Mid-West saw the largest fall in acreage sold over the period. In 2015, approximately 7,600 acres sold in the region, while in 2017 just over 2,650 acres sold, representing a 65% decrease over a three-year period.





OUTLOOK

The outlook for the agricultural land market remains distinctly unclear. Brexit continues to loom over the market, as it has done since July 2016. The uncertainty surrounding the exit terms and the distinct possibility of a no deal scenario continue to impede investment in the market.

Fundamentally, much of how the land market will progress in 2019 will hinge on the final approach the UK government takes in their Brexit negotiations. This approach should become clearer early in the new year.

Away from Brexit, Teagasc, based on the assumption that there is a return to normal weather conditions next

year, are expecting an increase in farm incomes.

A decrease in the amount expected to be spent on feed is primary driver of this increase in income. However, some increase in input prices is expected, with fertilizer costs expected to rise in excess of 10%.

There is no clear consensus amongst commentators on how milk prices will develop in 2019, but the prevailing opinion appears to be that there will be a decline in milk prices relative to 2018 prices. Growth in global production is expected to slightly outpace growth in consumption. Domestic production, which has increased significantly the past few years, is expected to grow further.

Furthermore, the extension of Stamp Duty Relief for young farmers in Budget 2019 for a further three years to the end of 2021, is welcome, and should help transaction activity in the new year.

Commenting on the overall market, Roseanne De Vere Hunt, Head of Sherry FitzGerald Country Homes, Farms and Estates, said...



“Even against a backdrop of bad weather and increasing talks of the UK leaving the EU without a deal, there has been an increase in farm values in 2018. However, going into 2019, the avoidance of a no-deal scenario is vital for the health of both the land market and agricultural industry at large”

MARKET DEFINITIONS

CSO Nuts 3 Statistical Regions

Border Region: Cavan, Donegal, Leitrim, Monaghan, Sligo

West Region: Galway, Mayo, Roscommon

Midlands Region: Laois, Longford, Offaly, Westmeath

Mid-East Region: Kildare, Meath, Wicklow, Louth

Dublin Region: Dublin County

South-East Region: Carlow, Kilkenny, Waterford, Wexford

South-West Region: Cork, Kerry

Mid-West Region: Clare, Limerick, Tipperary

Land Types

For the purpose of this report, land defined as 'all farmland' combines the activity of 'prime arable land', 'mainstream grassland' and 'marginal grassland'.

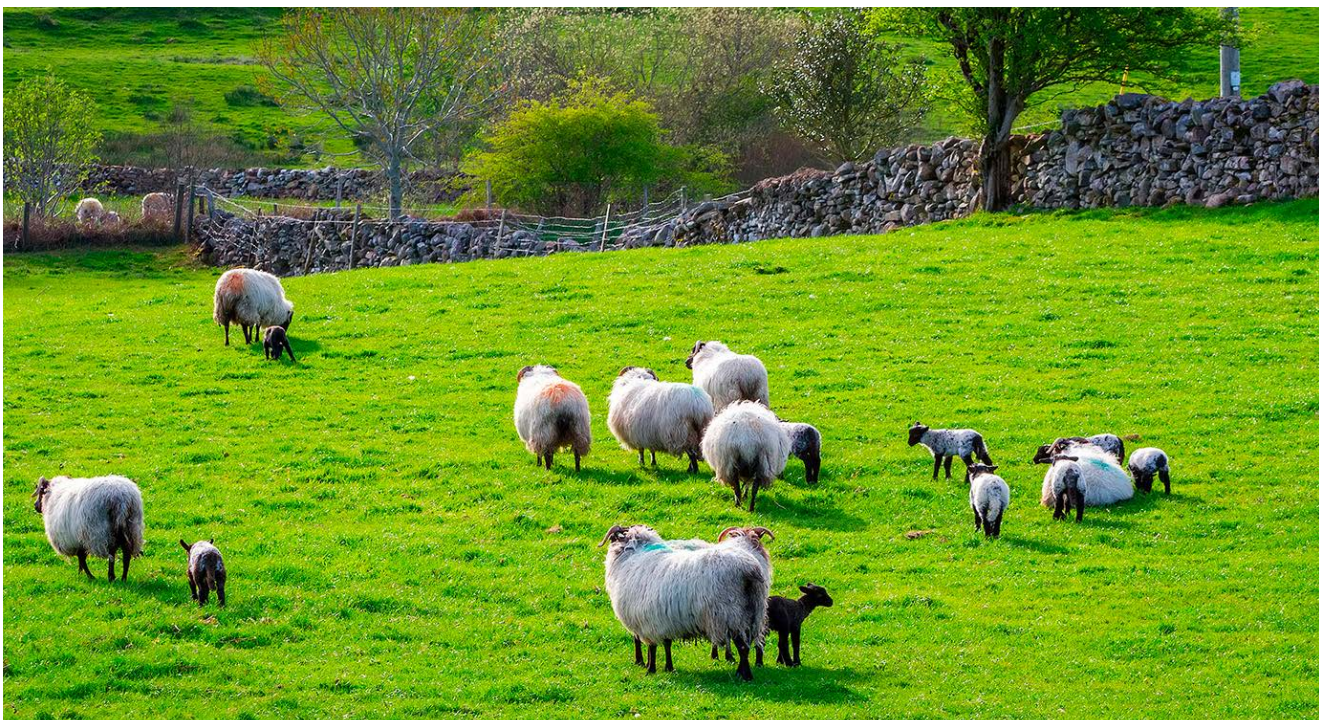
Prime Arable Land - High quality lands suited to tillage or dairying.

Prime Grassland - High quality permanent pasture.

Marginal Grassland - Summer grazing quality or poor quality grassland.

Methodology

A total of 51 Sherry FitzGerald Countrywide members provided values for different farmland types, namely Prime Arable Cropping Land, Prime Grassland, Marginal Grassland and Mature Forestry. These values were based on actual sales, or likely achievable sales, in their area in the given quarter. Each region is weighted, and values at the national level, excluding Dublin, are calculated based on the addition of these weights. These weights are based off total value of farmland sold in each region according to the CSO.



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About Sherry FitzGerald Group

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