Farmland: an investment for the ages

"There'll always be an England, while there's a country lane. Wherever there's a cottage small, beside a field of grain."

The British countryside continues to exert a strong magnetic pull. The combined forces of atavism and nostalgia make the notion of spending one's days in some rural idyll powerfully attractive to many. The wealthy aren't immune to these feelings, of course. But for them, the countryside's appeal is also highly future facing. It's a means of protecting and preserving wealth for the generations to come.

Fertile soil

Over the last 20 years, farmland has proved an excellent investment. The value of arable has nearly quadrupled, with average prices now sitting at £10,000 per acre. Forestry has seen prices spike by as much as 60% since 2020. As a result, demand has spilled over into lower quality livestock land and driven the cost of pasture up to record levels.

Much of this growth is down to the arrival of the big institutions. As they rush to burnish their green credentials, it seems no price is too high. It might be premature to talk about a bubble, but there's certainly some serious head-scratching going on amongst professional valuers.

Their appetite appears insatiable. A London-based buyer recently expressed interest in a parcel of farmland, only to discover they were ninth in the queue. Standing in front of them were eight different institutions.

A highly desirable commodity

The fact is: there's a lot of money chasing very limited supply.

Typically, just 100,000 acres of farmland are publicly marketed in England and Wales each year. Whilst this conceals the fact that – as in every other property class – more and more is being sold off-market, the total is still well short of the 400,000 acres a year available during the 1980's.

Such farmland as does appear is being snapped up quickly. And it's not just the institutions who are buying it.

Farming is now a game of scale. More land means more efficiency, crucial at a time when commodity prices are either depressed or fluctuating unpredictably. Buying neighbouring land is the easiest way to leverage economies of scale and these opportunities don't come around too often, so when they do, farmers will compete strongly.

Banks now and historically have been keen to lend against land, 'go ahead' farmers and their businesses.

Some other big players in the market have been and will no doubt continue to be the 'Roll Over Merchant'. These are typically farmers who have sold land for development or people who have sold businesses who can 'roll over 'the capital tax gain into a farm, as long as they have control over the farming business. These buyers can afford to pay over the odds and have a certain timeline before the tax man cometh!

With the farms getting bigger, the total number of farmers in the UK is shrinking fast, one in five have left the industry in the last 10 years.

Private wealth is the third big player in the equation. A historically benign tax regime, sterling's fall (particularly against the dollar) and the opportunity to avoid the punitive land holding rates charged in some countries make the British countryside highly attractive to overseas buyers.

Danish retail tycoon Anders Holch Povlsen owns 220,000 acres spread over 12 Scottish estates. Not far behind is Sheikh Mohammed bin Rashid al-Maktoum, who is estimated to control more than 100,000 acres. For comparison, James Dyson and his farming company have to make do with a mere 36,000 acres of albeit prime English land. It's not just about the super-rich. Recent years have seen a strong uptick in demand for 'residential' farms as well-to-do buyers seek out weekend boltholes or, post-COVID, flee the big cities for good.

Advantages today, advantages tomorrow

What's motivating private wealth?
As always with property, lifestyle and amenity come near the top of the list. Find the right location and the countryside can offer a great quality of life.

But the long-term view is at least as important. Ever since the Finance Act of 1975, owning farmland has conferred some extraordinarily valuable tax benefits.

The most significant is Agricultural Property Relief (APR). APR provides relief from Inheritance Tax not just on agricultural land, but also on "appropriate buildings and farmhouses that are actively used by the owner for agricultural purposes." Once a property has been owned for two years (either directly or via a company they control), relief is available at 100%.

In parallel, land which qualifies for APR can be given away without incurring Capital Gains Tax. Any gain can be held over by the transferee, meaning the land can be taken at the original cost price.

Unsurprisingly, there are attendant complexities which require specialist advice. But the bottom-line is that farmland is a highly tax-efficient way to pass wealth on to children or other family members. If the goal is generational future-proofing, few solutions are more effective.

Straws in the wind

The big question is whether these tax advantages are bomb-proof.

Going into last year's Autumn Statement, we suspected that APR might be in the Chancellor's sights. Whilst the agricultural land itself seemed certain to be protected, few farmhouses are used solely for business purposes. The logic for them receiving 100% relief has always seemed debatable.

The government chose not to move. With bigger fish to fry, it may simply have decided that it didn't need the political headache. But one sentence in the Statement is well worth noting: "A fair tax system ensures that those with unearned income contribute." Hence the Dividend Allowance and the Capital Gains Tax Annual Exempt Amount were both "reduced in generosity". (As always, His Majesty's Treasury has a lovely turn of phrase.)

By 2027/28, these two changes are forecast to generate £1.38 billion in additional revenue per annum – substantially more than will flow from reducing the 45% income tax threshold.

Bringing home the harvest.
Change is clearly afoot in terms of how unearned income is treated, and there may be more to come – especially if the next government is of a redder hue. But the fundamental advantages of owning farmland are still intact and are likely to stay that way.

If you're interested in capitalising, here are six things to think about:

1. Even when entering the game, scale matters. We recommend targeting a minimum of 200 acres for your first purchase. (To help visualise that, think of a square where each side is 1,000 yards long.)

2. As a rule of thumb, buy the best quality you can. If an opportunity arises to enhance or expand your existing holding of land, then consider this very carefully. Neighbouring land comes at a price, it is likely to be worth more to you then to anyone else and one could expect to pay 'marriage value' (uplift) and you may only get one chance in a lifetime to buy neighbouring land.

3. Ensure you are actively involved in farming the land. You do not necessarily need to drive the tractor; but you do need to shoulder the risk and underwrite the costs. If you are buying purely for amenity, your position will be much more exposed going forward.

4. Find the most effective routes to market. A sharper focus on both food security and healthy eating mean local produce is likely to prosper in the coming years. Farmers' markets, your own shop or neighbourhood supply chains can all help to improve margins.

5. Take a 360° view on what the land can do for you. Make the most of the farm's natural resources; they can make a big difference to irrigation and energy costs. And pay close attention to both the principle and practice of ELMS (Environmental Land Management schemes). Nothing is 100% certain, but subsidies for the 'public goods' of sustainable farming, local nature recovery and landscape recovery are probably sacrosanct. No government wants to be the one that ends support for – say – the creation of lapwing nesting plots.

6. Get the District Valuer round for coffee. That may sound flippant, but really isn't. Ultimately, he or she will determine which of your buildings are used for agricultural purposes and therefore qualify for business relief. The sooner you make friends, the better.

Farmland is often described as a hedge against inflation, and historically that's been a key strength. But it is an even more effective hedge against death duties.

There are uncertainties, of course. As we saw in the Autumn Statement, governments are likely to look at unearned income with an increasingly beady eye. And subsidies can always be removed.

But there are strong anchors: the rule of law; Britain's undying passion for the countryside; and the pressure for carbon zero action in the run-up to 2050. Farmland also enjoys the fundamental advantage of scarcity. Going forward, supply will only get tighter.

For anyone looking to combine a rural lifestyle with generational future-proofing, farmland has much to recommend it.