



IPAV FARMING REPORT 2018

IPAV AGRICULTURAL REVIEW AUTUMN 2018



We Need Consistency in our Agri Policy

I'm delighted to welcome you to the IPAV Farming Report 2018.

As the farming community gathered for its annual pilgrimage to the Ploughing Championships in Tullamore, the main topic of conversation was how farmers, who are well accustomed to volatility, are going to cope with the excesses of this year's drought, combined with the effects of last year's floods.

Ironically, it's a time of year that is intended to be about celebration, celebration that the harvest has been saved and the bulk of the work is done, in preparation for winter.

This exceptionally dry year has resulted in a major drop in crop yields. The extreme weather conditions, which were shared with many countries across Europe, will mean little time for celebration. Farmers are trying to deal with the immediate fallout and plan for the year ahead. At a macro level it highlights the importance of dealing with climate change issues. And it is to be welcomed that some of our most prominent European representatives are insisting that the Common Agricultural Budget, which has always been challenged, is at least maintained in the next round of funding.

As if the severe drought were not enough to deal with, Brexit is also posing a very big challenge for the agri-food sector. Already the uncertainty and worry it brings is being felt, particularly along the border counties, where normal sales activity and investment has slowed considerably. It is to be hoped that the 'no deal' scenario being planned for currently will actually serve to instil the negative consequences that such a scenario would pose both North and South, as well as in Britain itself. It could actually serve as a stimulus in reaching a far better deal. We are at the 11th hour.

Last year's spike in Stamp Duty from 2pc to 6pc is also impacting land sales, thus making it more difficult to purchase both land and farms, more difficult for those who may already be farming holdings, which are not economically viable over the longer term, because they are simply too small. These are generally highly qualified people from a younger demographic, with hunger and ambition to develop farms and other agriculture enterprises. The increase in Stamp Duty seems to fly in the face of public policy as these are exactly the kind of people national and EU agricultural policy seeks to encourage.

IPAV is calling on the Government to reduce Stamp Duty on farm and land sales from 6pc to 4pc and the restoration of the 2pc rate for those wishing to buy one-off sites for family homes.

Even before the arrival of Brexit, the farming sector has always been vulnerable to market volatility. In this context, every 1pc reduction matters more to this sector perhaps than any other industry sector. We would hope that the Government will heed this message in the forthcoming Budget.

Pat Davitt FIPAV REV MMCEPI
CEO IPAV.



INTRODUCTION

The market for agricultural land in Ireland has remained steady over the last 12 months, with lower single digit increases experienced in some areas and prices largely remaining unchanged in many areas. This is the general consensus from IPAV land experts throughout the country, specialising in the sale of agricultural land. Average prices being achieved are in the €9-9,500 per acre bracket. Needless to say, the range of actual prices being achieved is extensive and subject to location and quality - from €4,000 per acre for marginal lands to €15,000 for smaller plots in the commuter belt areas. This current period of stability in land prices was preceded by downward pressure on values in 2016 (-3%), followed by a general stagnation in 2017 (+1%). One of the key factors affecting sentiment and confidence in 2018 to date, has been the inclement weather. Following three years of good growth with typical weather patterns, matters became challenging in 2017 with extensive flooding followed by a snow event in late February 2018, finishing up with an extensive period of drought in June and the first half of July. As a result, input costs are significantly up, primarily as a result of additional feed costs. Moisture levels on a national level were down 15% on average in 2018, with some areas in the south & south east reduced as much as 40%. This lack of growth in the summer months in turn, has had a significant knock-on effect on the volume of the harvest to date, with the worst affected areas experiencing falls in yield of up to 35%.

Undoubtedly, every year brings fresh challenges for businesses in all sectors of the economy. The farming sector is no different, as highlighted above. Land value is often a key indicator to the sentiment or health of the prevailing agricultural sector. In the IPAV 2017 Farming Report, we highlighted that as a result of the unexpected Brexit vote, uncertain times lay ahead, but that we expected to have a clearer idea of its implication by the end of 2017. Little did we know.

Twelve months on, are we any the wiser? Indications are, that the reality of this challenge has only recently dawned on the UK's fragmented elected representatives. Little or no progress has been made to date and as every week goes by, the possibility of a 'Hard Brexit' seems ever more possible. Many experts believe that the likelihood of a 'no deal' currently sits at 50/50. Sterling continues to find itself under pressure against all the main currencies. If a 'Hard Brexit' does prevail, parity between the euro and sterling is a very possible scenario. This would put additional pressures on already hard-pressed exporters in the agricultural food & drinks sector. Ireland, unfortunately would find itself second in line, only to the UK, in the order of countries most vulnerable to the potential fallout. UK bound agricultural food and drink exports from Ireland now exceeds €12 billion annually, and is far and away the biggest market for Irish agricultural produce. The sectors with the highest dependency are beef and dairy, which account for 65% of the agricultural portion of this total figure (€7 billion). How have the various sectors of the industry been performing in 2018. On an annual basis, the agricultural input price index was up 4.9% in June 2018 compared with June 2017. The agricultural output price index decreased by 3.3% in June 2018 compared with June 2017. See *Figure 1 below*.



Figure 1 Agricultural Price Indices



Figure 2 Milk Prices 2011-18





Dairy

Milk prices have held up throughout the summer, hovering around the 33c/litre. This was preceded by a fall in late 2017 and early 2018 (37c to 33c). Values currently are approximately 10% lower than the same time last year. See Figure 2 above. Margins are significantly lower due to higher production costs (+23%) driven primarily by up to 75% increases in feed costs, as a result of the extreme weather events experienced in February, and more recently in the months of June & July. This ensured little or no grass growth.



Beef

Beef prices have remained steady, primarily as a result of the continued buoyant demand from Europe and further afield. Production is up 2% in 2018. Prices are expected to sit just above the 2017 levels for the rest of this year. Similar to the dairy sector, increases in input costs especially feed costs, have reduced margins significantly. In some parts of the country cattle were required to be housed for up to 6 months. Farmers are however, optimistically looking forward to additional autumn growth and subsequently a potentially shorter winter. The outlook for beef prices remains positive with further small increases anticipated.



Tillage

This sector is likely to be the biggest victim of the summer drought. While feed costs are not an issue, growth is key to this sector. Initial signs indicate yields are down up to 35%, depending on the nature of the crop and its location, the south and east of the country being the areas worst affected. The average decrease in yield is expected to be in the region of 25%. Stronger international commodity prices have helped to offset some of this downside. Prices in 2018 have increase by 10-20%, however farm income in this sector is expected to be down 25%. The outlook for the next 12 months remains cautiously positive.



Sheep

Sheep prices have been holding up well and trading at approximately 10% higher values than achieved in 2017. Margins are slightly down as a result of slight increases in overhead costs. Prices are expected to hold through the winter months.



Forestry

Continues to attract significant interest from investors and funds, in particular parts of the country. The type of timber is of real significance with the hardwood varieties proving much more popular. Prices generally average €4,000 - €4,500 per acre reaching as high as €6,000 per acre in some parts of Munster. With a noticeable reduced demand from traditional farmers for marginal lands, former parcels of grassland are now being purchased and planted for forestry. This in itself has indirect implications for the local economy.



AROUND THE PROVINCES – THE EXPERT’S VIEW

MUNSTER

TOM CROSSE FIPAV, GVM AUCTIONEERS LIMERICK

Tom Crosse who has been selling farmland in Co. Limerick and Munster for many years believes that prices have remained flat, by and large, as a result of the inclement weather experienced. “Demand for marginal land has reduced. Quality farmlands will achieve in the region of €10,000 per acre with a good demand for forestry resulting in prices up to €5,000/acre, subject to the age of the crop.”

JOHN HODNETT MIPAV, HODNETT FORD, CLONAKILTY CO. CORK

According to John, “The supply of farmland ‘for sale’ is well back on previous years with little change in prices achieved.” He has noticed a strong demand for land lettings with quality parcels reaching as high as €340 per acre. He notes a continued strong demand for forestry “despite the bad winter and poor spring.” He expects that if milk prices continue to hold at their current prices of 32/33c/litre, that it should ensure a positive year for the dairy farmer.

MICHAEL BRADY MIPAV, BRADY GROUP, LEE ROAD, CORK

The reappearance of the ‘non-farmer’ to the market in the Cork area is a notable comment from Michael. This is consistent with a similar trend in the Dublin commuter belt. “Supply has been poor in the year to date however, there has been a pick up over the summer months” This is consistent with a reluctance of vendors to go to market during the inclement spring weather. Another noticeable trend in his geographical area is large tracts of lands being purchased for tax purposes, thus minimising Capital Acquisitions Tax (CAT) liabilities. Prices being achieved extend up to €15,000 per acre in Cork for prime dairy land, in excess of €12,200 per acre for tillage land in South Tipperary to €10,000 per acre for grassland in North Tipperary.

LEINSTER

EAMON O’FLAHERTY FIPAV, SF BRADY O’FLAHERTY, MAYNOOTH, CO. KILDARE

Eamon reports strong demand for farms in excess of 100 acres, top quality land with good access to both the capital and the airport. “Typical values being achieved for midsize quality farms (50-100 acres) are €13-15,000 per acre. These are primarily hobby farmers interested in bloodstock.” Demand from full time farmers is negligible due to the premium being paid by purchasers for the location. “Little or no change in values experienced over last 12 months with little change expected in the short-term.”

AIDAN DAVITT, MIPAV, SF DAVITT & DAVITT, MULLINGAR, CO. WESTMEATH

Aidan has not seen significant changes in prices achieved in the midlands, across all sectors, over the last 12 months and he does not envisage much of a change in the next 12 months. He believes this is simply being fuelled by ‘uncertainty’. We all know that people are not comfortable with uncertainty. Prices achieved for good quality land range from €8-10,000 per acre. Land lettings are achieving in the region €180 per acre although he says “There is good demand coming from younger farmers to lease land but little appetite from landowners to go this route. Also, good demand for forestry land with a base price of €4,000 per acre being achieved.”

JOHN FARRELLY, MIPAV, DNG ROYAL COUNTY, NAVAN CO. MEATH

John believes that the unusual weather experienced in 2018 “will have a short-term effect on prices until mid-2019, until such time as the farmer’s income corrects itself.” Interestingly, he continues to experience substantial interest from non-farming investors for quality farms, throughout the country. Consistent with the overall general trend, he is now seeing a greater supply of lands coming to market. Examples of prices being achieved in the Meath area are, in excess of €10,000 per acre for smaller divisions North of the county and €8,500 per acre for good tillage land with limited road frontage.



THE AGENT'S VIEW (CONTD)

CONNAUGHT

GERRY COFFEY, MIPAV, Gerry Coffey Auctioneer, Williamstown, Co Galway.

According to Gerry, "Prices have remained very steady over the last 12 months. The late Spring affected the market, slowing the delivery of lands for sale. This is now less of a factor with increased supply over the summer months evident." He sees continued demand from farmers for long leases as it provides tangible benefits for both tenant and landowner. There is a real incentive for the tenant to enhance the holding and in some instances, the rent is initially reduced, to allow the tenant to carry out improvements. This is also ideal for the landowner who can benefit from the tax allowances available. Average land values sit at approximately €7,000 per acre, €5,000 for marginal land with better quality land and small parcels achieving up to €10,000 per acre. Access to finance remains a real challenge, with lenders often selective on the type of agricultural enterprise they are prepared to lend on. The acute shortage of fodder combined with the additional input costs are resulting in some farmers now leasing as opposed to purchasing.

JOHN EARLEY, FIPAV, Property Partners Earley, Roscommon

John points out that 'new land leases' were scarce on the ground in 2018 as long-term lettings have locked out availability. Some leases have now moved into their second term. Interestingly his view is that "The dryer summers, which we are now starting to experience, will reduce the water levels, which in turn will be advantageous to the lower lying midland regions." He has not seen significant negativity towards Brexit and he expects that land values will hold up over the next 12 months. The reluctance and delays by the banks on funding land purchase remains a real concern for the sector. The current price being achieved in his area is €8-8,500 per acre with strong demand also for quality forestry land at up to €5,200 per acre.

KARL FOX, MIPAV, FOX & GALLAGHER, BALLINA, CO. MAYO

"The demand for lands in areas where population levels are decreasing has seen a notable drop in interest however, there still remains an appetite for lands closer to the more populated areas. Cashflow remains a significant challenge for many." Karl expects prices to remain at their current levels in the short to medium term. He has also seen increased prices for land lettings, up as much as 25%.

ULSTER

KEITH ANDERSON, FIPAV, Anderson Auctioneers, Donegal

Keith's view mirrors that of his colleagues in the rest of the country, where supply of quality farmland is at a minimum. He is seeing a supply of lesser quality lands, more marginal lands, which is proving of interest to forestry investors. Regarding the inclement weather experienced over the last 12 months and its effect on land values, his view is that 'the right land in the right location will always have a market'. Values being achieved are wide ranging from €4,000 for marginal land to €10,000 per acre for smaller quality holdings, primarily due to the wide ranges of land quality in the area.

PETER MURTAGH, FIPAV, Murtagh Estate Agents, Bailieborough, Co. Cavan

Peter maintains that forestry demand is providing a base value for land in excess of 20 acres of approximately €4,000 per acre. Availability of lands for sale has proven a challenge in 2018 however things have improved in recent months. In relation to the forthcoming year he anticipates no great change from the current levels. He maintains that "input levels are rising all the time and the required profits are not available to the farmer."



OUTLOOK

What is the general sentiment and outlook for the land market, as we enter the Autumn of the year. The general consensus from IPAV experts seems to be that prices at worst, will hold steady for the next 12 months, despite the current uncertainties attributable to Brexit. It will be interesting to see if a recent pick up in the supply of quality lands coming to the market, is sustained. Of more immediate concern to farmers in all sectors is the changing weather/climate and how this in turn will affect future input costs and margins in the sector.

Commodity prices are expected to hold firm and the outlook for the dairy sector following a period of stable milk prices, is also optimistic. A very noticeable trend is where more and more farmers are trying to rent land on a long-term basis, wherever available. This allows them to make improvements, to maximise the return from these lands, and to reap the benefits over the seven year period. This is proving especially attractive to younger farmers, as lenders, in many instances, continue to be reluctant to advance funds. This route is also more tax efficient for the older landowner who is looking to maximise his return from his/her lands, with limited input.

With the increased activity in the long-term land rental market, this is a very opportune time for IPAV to partner with the IFA (Irish Farmers Association) and MII (Mediators' Institute of Ireland) in launching a new mediation service for members of the IFA and IPAV entitled the 'National Mediation Service'. This gives both tenants and landowners the opportunity to access professional mediation assistance, as opposed to proceeding down the expensive legal route.

Overall, the Brexit picture is still most unclear, however the fundamentals in the Irish market still remain positive and land prices are confidently expected to hold up. A lack in supply of quality lands coming to market remains real a factor.



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