

Rural Land Market Insights Report

A report to the Scottish Land Commission

April 2022



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Authors: Rob McMorran, James Glendinning and Jayne Glass

Acknowledgements:

The research team would like to thank all of the individuals who gave their time in providing their views and information throughout the course of the project. In particular we would like to thank the land agent interviewees from across Scotland, who willingly engaged with the project and provided in-depth input on current land market activity, key trends and market drivers. The research team have developed an improved understanding of key current land market trends and the role of natural capital investment as a market driver, due to the input from these research participants.

This report should be cited as:

McMorran, R., Glendinning, J and Glass, J. Rural Land Markets Insights Report. Scottish Land Commission, Commissioned Report.

For further information on this project contact:
James MacKessack-Leitch Tel: 0300 244 4452
Scottish Land Commission, Longman House, Longman Road, Inverness, IV1 1SF
Tel: 0300 244 4452

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EXECUTIVE SUMMARY

Background

This summary presents the findings of the first stage of a two-stage research project commissioned by the Scottish Land Commission, on improving reporting of land market transactions in Scotland. This first stage aimed to identify current trends within Scotland's rural land market to provide an up to date picture of buyer and seller motivations, with a specific focus on understanding how increased demand for natural capital investment is driving activity in the land market. The second phase of this work will undertake data collation on land sales from Registers of Scotland and participating land agencies, to develop a quantitative assessment of land market activity and land values. The findings from this second phase of research will be presented in a second project report in May 2022.

Method and approach

The approach developed for this research included three interlinked components: i) scoping and initial enquiries to identify key evidence sources and potential interviewees for the later stages of work; ii) a desk-based rapid review of published evidence on the Scottish land market; and iii) semi-structured interviews with 18 land agents operating in Scotland's rural land market and a thematic analysis of interview findings. The aim of these interviews was to assess current land market activity and trends and motivations for buying and selling rural land, with a specific focus on understanding of how increased demand for natural capital investment is influencing land markets.

Findings from published evidence on land markets

This section summarises land market activity and trends in three key areas: farmland, estates and forestry (and plantable land), based on review of existing published evidence.

The Scottish farmland market

- On average 30,000 acres of farmland (on around 85 holdings) has been marketed annually in Scotland over the last ten years. The wider UK farmland market has experienced significant recent declines in supply (reflecting longer term trends), with larger proportional declines in supply evident in Scotland. The number of larger farms being marketed has reduced (and the number of smaller farms increased) as a proportion of the farmland market over the last twenty years. Retirement from active farming represents a key driver of supply of farmland to the market in Scotland.
- Reflecting long term trends, farming buyers were the dominant buyer type for farms in Scotland in 2021. However, non-farming (lifestyle and forestry) buyers are an increasingly important part of the Scottish farmland market. This reflects wider UK trends, with non-farming buyers of farmland, including investors and amenity buyers, purchasing over 40% of farms in the UK over the last 5 years.
- Reduced supply and strong long term investment potential has increased demand for Scottish farmland in 2020-2021, with increased market activity evident as pandemic-related restrictions have eased. High demand has resulted in farmland values rising across the UK by 0.7% in 2020 and by 6.2% in 2021, with Scotland experiencing the

strongest growth in values (+31.2%) in 2021, with average per/acre values (all land types) in Scotland of £5,920.

- The high levels of demand (and low supply) have influenced an increase in the proportion of farmland sold off market in Scotland (estimated at 30% in 2020).
- Agricultural land quality is no longer the key determinant of farmland value, due to the increasing influence of capital from outside agriculture. Instead, the natural capital and afforestation potential of land is an increasingly critical driver of demand due to timber prices, competitive forestry grants and carbon offset markets, particularly for hill ground and less productive grassland and marginal arable ground.
- Environmental motivations and natural capital investment are increasing competition in the farmland market, from both private/individual and corporate/institutional buyers. Farm buyers are now frequently outbid for plantable hill ground by forestry investors in Scotland. As a result, poor livestock land in Scotland has increased in value by over 60% in 2021, following a 17.5% increase in value in 2020.

The Scottish estates market

- Scottish estates are an important niche market, with an average of 32 estates (126,000 acres) marketed annually over the last ten years, with sales usually completing on two thirds of these.
- The total investment in Scottish estates in both 2020 (£112M) and 2021 (£247M), represented record increases (with 2021 representing a 119% increase in investment compared to 2020). This average price paid for a Scottish estate in 2021 was £8.8 million, an 87% increase on the 2020 average (£4.7M), despite the total land area of marketed estates (124,000 acres) and average size of estates being marketed (3,900 acres) in 2021 being similar to the five year average figure in both cases. Additionally, two estates sold for over £20 million and five for between £10 and £20 million in 2021, compared to only three estates sold for over £10 million in 2020 and one in 2019, reflecting a marked increase in demand and investor interest.
- Similar to farmland, off-market sales are growing in importance, with 45% of estates marketed and 33% sales completed off-market in 2020 (an increase on the last 4-5 years), with around a third of buyers from overseas. A further marked increase occurred in 2021, with 64% of successful estate sales occurring off market.
- The relatively low turnover of estates reflects the high degree of continuity of ownership in the sector and consistently low supply has resulted in very high levels of recent demand for Scottish estates, alongside typical drivers e.g. rural lifestyles and relative affordability (and exclusivity) of estates compared to city properties.
- Opportunities relating to natural capital have become an increasingly important driver for estate acquisitions in recent years, with green investors interested in carbon offsetting, afforestation, renewables and rewilding, increasingly competing with lifestyle and sporting buyers. This has also increased interest from corporate buyers of estates due to the related carbon offsetting potential and increasing government support for environmental measures.

Forestry and plantable land markets

- High levels of recent demand for forestry and plantable land in Scotland have been driven by limited supply of forest assets, high timber prices and ambitious government targets for afforestation. Since 2019/2020 demand has increased substantially from institutional investors and financial institutions, with several new rural-investment funds entering the market, driven by increasing demand for environmental investments, and the strong long term returns from forestry.
- In 2021, the UK commercial forestry land market consisted of 67 transactions totalling 10,400 hectares (averaging 155 hectares), an increase from 61 in 2020, despite a reduction of 17% in the total area sold. Reflecting long term trends, Scotland provided 76% of the UK commercial forestry land market in 2021.
- The UK forestry market has experienced exceptional recent growth, with total recorded investment in commercial forestry land in 2020 and 2021 of over £200M, compared to £104M and £127M in 2018 and 2019 respectively. Average sale prices exceeded valuations by around 50% in 2021, a year that saw the largest ever annual investment in commercial forestry land (Scotland accounted for 76% of this activity).
- Per hectare values for UK forests increased by over 20% in 2021 to £19,300, with some younger second rotation forests selling for over £30,000 per stocked hectare due to high tree quality, investment potential and a forest road network. Larger forests (>100 hectares) attract particularly high prices.
- In 2021 there were 70 sales of land in the UK for planting (compared to 33 in 2020), sold for a combined total of £53M and totalling 6,480 hectares, an increase on the 4,460 hectares sold in 2020, with a further £23M invested in land for natural capital.
- Plantable land increased in value from an average of £6,200 per gross hectare in 2020 to £8,500 in 2021, with Scotland experiencing the sharpest rise in value of 54% on 2020 values (Scotland accounted for 62% of plantable land sales in 2021).
- Woodland carbon markets were a further important driver of investment in forestry through the ability to verify carbon units under the Woodland Carbon Code, especially from broadleaf/native woodland schemes on poorer quality land, where productive forestry is less viable.
- This sustained demand has resulted in an increase in off-market transactions for forestry and plantable land, with off-market sales accounting for as much as a third of sales in 2020 compared to 11% in 2019.
- While land availability represents a constraint to afforestation, the emergence of carbon markets in addition to a buoyant timber market and strong policy drivers, suggests growth in forestry and plantable land prices is set to continue.

Land agent interviews

Current key trends in the land market (and extent of off-market sales activity)

Constrained supply represented a defining characteristic of Scottish farmland markets, influenced by favourable capital taxation, low interest rates and the strong long term investment performance of farmland. Marked growth in land values was recognised at either end of the land market since 2020, although values growth varied by region, with forestry and natural capital drivers less influential in strong agricultural regions. A reducing emphasis on farm profitability in relation to land values and an increasing emphasis on the importance of capital growth potential is evident across the land market. This is reflected in the emergence of several new investment vehicles for forestry and plantable land in Scotland.

Trends in off-market sales activity

Off-market sales activity was generally recognised as having increased across all land categories in Scotland in the last two years, driven by high demand and low supply (and reduced viewings during lockdowns), with some forestry agents in particular pursuing a proactive strategy to approach landowners to negotiate sales. This approach was seen as more suited to the forestry and plantable land market due to the smaller number of transactions and limited pool of buyers. A further driver of off-market farm sales related to farmer concerns around their neighbours' perceptions of their decision to 'sell out' to the forestry sector. While off-market sales are often relatively high value, sellers using an off-market route may risk achieving a lower price, due to the reduced potential for buyer competition.

Motivations and drivers for selling rural land

Retirement (or death) was generally identified as the most frequent driver for rural land sales, with other factors including re-location, divorce, a farming partnership split, and releasing capital. Current high values for plantable land offered and the marginal position of some farms offered opportunities for farmers to secure their retirement through selling their holding, but this was offset by a cultural resistance to forestry and retirement in the farming sector, current high prices for farming outputs and the long term investment potential of land encouraging retention of farm holdings. A further factor driving long term retention of farms (and low supply) related to the potential for retiring farmers to lease their land or engage in contract farming. Nevertheless, high land values were also noted as influencing land sales for re-investment purposes, with some farms able to release capital, to re-invest in diversifying their business. Some interviewees also identified an increasing prevalence of farmers selling their hill farms to reinvest in a smaller more productive low ground unit, due to the gap closing between hill ground and pasture/arable land values.

Motivations and drivers for purchasing rural land

This section sets out motivations and drivers for purchasing rural land in relation to three categories: i) farmland and amenity holdings; ii) estates; and iii) forestry and plantable land.

Farming and amenity holdings

Increasing demand for smaller farm holdings was evident in the farmland sector due to lifestyle factors (influenced by the pandemic and working at home opportunities) and the investment potential of residential holdings. While forestry buyers represented a key buyer group for lower quality (plantable) farmland, local farm businesses represented the key buyer group for productive higher quality farms. Farming buyers re-locating from England following a high value land sale (to benefit from lower land values and rollover tax relief) also represented a component of the market for productive farm units. Farmland demand was also influenced by macroeconomic factors including low interest rates and commodity prices.

Scottish estates

The motivations of some purchasers of Scottish estates were recognised as having shifted in recent years, with an increasing emphasis on environmental or landscape-scale ‘rewilding’ motivations and a younger buyer profile. In parallel, a decline in sporting motivations among new (and some existing) estate owners has occurred, linked to legislative changes and declining social acceptability of driven grouse shooting. This changing pattern of buyer motivations had occurred in parallel with a period of exceptionally high levels of investment in Scottish estates, driven by three factors: i) the impact of the pandemic on societal perceptions of the future way of working and a revaluing of rural lifestyles; ii) wider acceptance of the climate and biodiversity crises and increased interest among buyers in ecosystem restoration; and iii) increasing demand on global timber markets, combined with government and organisational commitments to achieving net zero within fixed timescales. A marked shift in buyer types was also evident, with nearly half of all estates purchased in Scotland in 2021 sold to corporate bodies, investment funds or charitable trusts. Recent corporate interest was viewed as driven by increasing interest in restoring peatlands and the potential for carbon offsetting and developing carbon credits at large scales.

Forestry and plantable land acquisitions

High levels of demand for forestry and plantable land was seen as driven by: i) global timber shortages and an increased emphasis on domestic timber production; ii) global policy drivers to achieve net zero; and iii) strong long term drivers for afforestation and related planting grants availability. These factors had driven increasing investor interest in forestry in recent years, with several new forestry investment vehicles emerging in Scotland since 2020. Recent high levels of demand for plantable land in particular were seen as a critical recent change in the Scottish land market, with investors regularly acquiring land without planting consent in place and forestry investors regularly outbidding farm buyers for plantable land. More recently, this appears to have resulted in an increasing shift towards acquiring better quality farmland/pasture land for afforestation, including lowland farm holdings (although this was regionally specific, with productive farm units more commonly sold to farming buyers).

Valuation and determinants of land values

Undertaking valuations of rural properties was recognised as becoming increasingly complex due to: i) rapid recent growth in values and limited availability of comparable sales; ii) an increasing emphasis on acquisitions relating to a land use change (with related uncertainties) and; iii) the potential for different buyer types to value land differently related to

speculation on natural capital and timber markets. The basis for valuing estates and hill ground was seen as having changed rapidly from a previous focus on sporting values towards a more complex consideration of natural capital values and afforestation potential. Comparable sales evidence to support these valuations remains limited, creating greater uncertainty in valuations, particularly for holdings with peatland and plantable land.

The influence of carbon markets on rural land markets

The importance of natural capital and specifically carbon as an influence on land values, is generally of greater importance in upland regions and areas with larger extents of peatland, lower quality agricultural land and smaller less productive farm holdings. In addition to generating income from natural capital markets, investment in natural capital assets was seen as influenced by the potential for obtaining future environmental payments for ecosystems services provision. This combination of carbon markets and future environmental payments also represented a potential opportunity for longer term retention of farms and estates, due to the potential for lower inputs. Nevertheless, despite recent increasing investment interest in woodland carbon, interviewees generally agreed that the over-riding driver for investment in both forestry and plantable land remained the high levels of demand and high current prices for timber as a tangible and sustainable asset.

Several risks were identified as dis-incentives for landowners to engage with natural capital markets, including: i) the emergent (and under regulated) status of carbon markets; ii) concern in relation to future requirements for offsetting their own emissions; iii) concern relating to natural hazards (and tree losses); iv) uncertainty around carbon prices over the long term; and v) concerns relating to the liabilities associated with carbon schemes and the implications for future owners in terms of commitments and underlying land values.

Future land market trends

Despite recognition of considerable uncertainty, there was a general consensus that the land market was likely to continue to experience strong growth due to: i) continued low supply and high demand for land; ii) high levels of private wealth and low interest rates; iii) long term climate change mitigation drivers including net zero commitments; and iv) increasing pressure on global timber markets and food supply chains. Factors identified as having the potential to reduce values growth included increased future land supply due to farmers exiting the industry, macroeconomic factors (rising interest rates, or changes in capital taxation) and changes in the regulatory framework relating to landownership.

Implications of land markets for land use transitions and communities

The financial capacity of new corporate and wealthy private estate owners was recognised as offering considerable potential for large-scale habitat restoration and woodland expansion and related delivery of public benefits, due to the increasing focus on environmental agendas linked to ESG commitments and natural capital markets. However, these shifts may also result in social and cultural impacts at local levels, due to the potential for relatively rapid and large-scale land use transitions, with related effects for rural community members dependent on the land use status quo. Nevertheless, corporate estate owners were also recognised as offering potential for bringing new approaches and resources to community

development, due to their ESG commitments and need to ensure social acceptability. This included the potential for: i) developing corporate-community partnerships, including in relation to delivering co-benefits relating to community natural capital funds; ii) taking a proactive approach to developing joint-ventures, both on the part of new owners and communities and other local stakeholders; and iii) identifying opportunities for learning from established approaches for empowering communities.

The potential effects of current land market activity on landownership diversification were perceived as uncertain, with the longer term effects of land acquisitions by forestry and corporate investors requiring a more detailed long term assessment of ownership structures and relative re-concentration (as opposed to the breaking up) of purchased holdings.

Several interviewees were broadly in favour of measures to enhance the transparency of land markets, while others argued that the need for greater transparency was over-stated and further measures to increase transparency were unnecessary. Specific proposals to enhance land market transparency included development of an open-access online land sales register, which recorded key information (including sales price) at the point of paying the land transactions tax. Other specific proposals included the development of long term management plans and annual impact reports (based on environmental and community benefit indicators) for holdings above a certain size threshold, to increase transparency and provide a mechanism for communities to be involved in land use decision making processes.

Key conclusions

The Scottish land market is characterised by exceptionally high recent demand and low supply, with non-farming investors playing an increasing role throughout the land market. This includes heightened demand for smaller farms as lifestyle holdings, investor interest in plantable land and forestry holdings and corporate interest in estates. The increased demand (and increase in values) for plantable land in particular, represents a major shift in the land market, driven in particular by the rise of institutional investors and net zero commitments. In practice, this has resulted in forestry investors regularly outbidding farm buyers for plantable land, with increasing recent interest in better quality land for planting. Notably, while further growth in land values may increase supply, this may also be counteracted by a range of factors, including contract farming opportunities and a cultural resistance to selling family farms. The increased emphasis on off-market transactions across most land types is unlikely to decline, assuming supply factors remain similar, which has implications for market transparency. Importantly, while natural capital investment represents a key driver for corporate acquisitions of estates, investment in forestry and timber represents a more important driver for the majority of plantable land acquisitions (although woodland carbon represents a driver of growing importance in this sector). Collectively, these market shifts have the capacity to result in market-led large-scale land use transitions over the longer term. This may bring benefits and opportunities for rural communities and businesses, but may also have implications for rural community members dependent on the land use status quo, and in relation to the flow of benefits from natural capital assets and related public support mechanisms. This highlights the importance of developing effective and well-aligned market-based and public-support mechanisms to counteract existing structural barriers (e.g. landownership concentration) and avoid inherent policy conflicts and ensure land use transitions are viable across a wide range of land managers and holding types and sizes.

1 INTRODUCTION AND BACKGROUND

The research presented in this report was commissioned by the Scottish Land Commission as part of a two-stage research project on improving reporting of land market transactions in Scotland. This report presents findings from the first stage, which includes: i) a desk-based review of existing evidence on Scottish land market activity (Section 3); and ii) a thematic analysis of 18 anonymised interviews with land agents operating in the Scottish rural land market (Section 4). The aim of these interviews was to assess current land market activity and trends and motivations for buying and selling rural land, with a specific focus on understanding of how increased demand for natural capital investment is influencing land markets. This following section outlines the project objectives and provides a summary of the background on rural land markets in Scotland. Section 2 outlines the methodological approach and Section 5 presents the main conclusions from the research.

1.1 Project objectives

The methodology set out in Section 2 has been designed to address the specific aim for this research, which was to:

- Analyse and report on the current pattern of activity within Scotland's rural land market to provide an accurate, up to date picture of buyer and seller motivations, with a specific focus on understanding how increased demand for natural capital investment is driving activity in the land market.

The specific objectives developed to address this aim were to:

- I. Undertake a desk-based assessment of existing evidence to identify longer term trends, market shifts and key drivers and motivations for sales and acquisitions in the Scottish rural land market.
- II. To undertake a consultation with land agents operating in the Scottish land market to identify key market insights relating to current trends and drivers for selling and purchasing rural land and key factors influencing rural land values.
- III. To assess, combining existing evidence and land agent perspectives, the current role and influence of forestry and natural capital markets and investment on land sales and acquisitions.

The second phase of this work will undertake quantitative data collation on land sales from Registers of Scotland and participating land agencies, to develop a comprehensive and up to date assessment of recent land market sales activity and land values. In addition, this second phase of work will develop a replicable methodology for gathering robust quantitative and qualitative data about land market activity in the future. This findings from this second phase of research will be presented in a second and final project report in May 2022.

1.2 Rural land markets and land reform

1.2.1 Land market functioning and off market sales

How land markets function and the value of land can have a direct impact on the relative accessibility and availability of land for different groups in society (Cheshire and Vermeulen, 2009). Access to land for individuals can be affected by the general availability of land (what is marketed and the level of turnover), as well as the value (price) of land and how land is marketed (McKee *et al.*, 2018). In Scotland, an increasing proportion of land sales occur ‘off-market’ due to comparatively low supply and high demand, which offers benefits of reduced marketing costs and increased privacy for buyers (Parsons and Millard, 2018). However, this off-market approach can also result in land being made available to a smaller pool of potential buyers, due to the lack of open marketing, with a lack of clarity currently around the number and proportion of sales which are completed in this way (Scottish Affairs Committee, 2014; Strutt and Parker 2020; Savills, 2021a).

In addition, the scale of existing landholdings and related land transactions can influence access to land, in relation to the availability of landholdings across a broad size range. These factors can combine to effectively constrain access to land for new farming entrants (McKee *et al.*, 2018), and smallholders and rural businesses (Thomson *et al.*, 2019), with implications for rural communities. The high degree of concentration of existing landownership in Scotland, which can be exacerbated by land markets and high land values, has also been identified in some cases as impacting on the ability of rural communities to realise their economic potential, as well as restricting opportunities for housing development (Glenn *et al.*, 2019). Access to land is therefore fundamentally linked to economic growth and the wellbeing of communities.

1.2.2 Developing evidence for improving understanding of land markets

Understanding levels of land market activity, the volume of on- and off-market sales, current and projected land values, longer term trends and the factors influencing and driving land markets, therefore represent critical aspects of understanding how markets operate and how this might affect access to land for individuals, communities and businesses. A number of long running property indexes and market reports currently exist, which offer valuable insights into rural land markets in Scotland, including Strutt and Parker’s Scottish Estate and Farmland Market Reviews¹, the Knight Frank Farmland Index² and The UK Forest Market Report³. Nevertheless, uncertainty remains around the total volume of sales (including all off-market transactions) and no fully comprehensive index of rural land sales has been developed to link sales with the motivations of buyers and sellers⁴. Notably, previous UK land market surveys⁵ have generally had low uptake in Scotland, reducing their relevance for Scottish stakeholders. While measures are underway to improve the transparency of

¹ Strutt and Parker [Scottish Estate Market Review](#) and [Scottish Farmland Market Review](#)

² Knight Frank [Scottish Farmland Index](#)

³ Tilhill and John Clegg & Co (2021) [UK Forest Market Report](#)

⁴ The Strutt and Parker Farmland, Estates, and Forestry land indexes do include a significant proportion of total rural land sales and include some ‘enriched’ data (on buyer motivations) for around 50% of cases.

⁵ The [RICs/RAU Land Market Survey](#) which ran until 2018.

information relating to landownership, including the development of a new digital land register for Scotland (Geissler, 2021), information on landownership and the sale of holdings remains challenging and costly to collate in practice (Poppea, 2018).

In recognition of these challenges, one of the Scottish Land Commission's current four priority work areas focuses on: '*reforming land markets – to improve the efficiency and equity of land markets to support a fair and productive economy*⁶'. Addressing this priority requires the development of an enhanced evidence base, to ensure the effects of any measures taken to increase transparency or regulate markets to improve their efficiency can be assessed over the longer term. In addition, developing a clear picture of current land market activity (including off-market sales and current market drivers) can help improve understanding of how effectively land markets are working in relation to transparency and limiting barriers to people, communities and businesses acquiring land in the future.

1.2.3 Understanding of the influence of natural capital on land markets

One important emergent influence on land markets relates to increased interest in acquiring land to invest in (and enhance) natural capital, including through woodland creation and peatland restoration. The increasing importance of natural capital as a motivation for landownership is evident across the land sector and reflects wider commitments to addressing the climate and biodiversity emergencies (Strutt and Parker, 2016; Savills, 2020a). This drive to invest in rural land for natural capital is exemplified in several recent high profile estate purchases in Scotland (see Section 4.3.2). These purchases are underpinned by aims to restore native woodland and peatland habitats, therefore benefitting from opportunities for offsetting emissions and generating marketable carbon units through the Peatland and Woodland Carbon Codes⁷ (Ross, 2021). Interest in natural capital offers opportunities to increase private investment in biodiversity and habitat restoration, but also raises questions relating to the distribution of benefits from natural capital markets and related impacts for local economies and communities (Trench, 2021). Importantly, while it is apparent that natural capital represents a growing influence on land acquisitions (and sales), the current extent to which natural capital investment drives land market activity is unclear, with owners and purchasers often influenced by a diverse range of personal and business motivations and external drivers.

Importantly, concerns relating to land market transparency and the distribution of benefits from natural capital markets, reflect wider general concerns relating to the concentration of landownership in Scotland (Glenn *et al.*, 2019). In a study of landownership and ecosystem services in Scotland for example, Atkinson and Ovando (2020) found that ownership of land providing comparatively high amounts of carbon sequestration was relatively concentrated, highlighting the fact that a relatively limited number of private actors are central to the future supply of ecosystem services in Scotland. This has implications in relation to the future distribution of public payments for ecosystem services provision and how this reflects or conflicts with wider Scottish Government policy on land use, land reform and a just transition.

⁶ Scottish Land Commission (2020) [Our Strategic Plan 2020-2023](#).

⁷ For more information see the [Woodland Carbon Code](#) and [Peatland Code](#) websites

While many of the impacts of natural capital investment may be beneficial, both for the environment and rural communities, the current lack of understanding of the motivations of new owners (compounded by the lack of information related to off-market sales) creates challenges for meaningfully assessing how landownership change should be considered in relation to emerging models of natural capital finance. In addition, natural capital markets remain relatively under-developed. A challenge for policy makers working to support the Scottish Government in meeting their net zero commitments therefore relates to achieving a balance between achieving win-wins for biodiversity, food security and rural communities, while providing investors with strong returns on investment from land value and carbon markets. There remains a high degree of uncertainty around how land acquisitions for natural capital by the investment community might interact and align (or mis-align) with post-Brexit agricultural policy, Land Reform policy in Scotland, biodiversity net gain and green finance mechanisms. For example, the implications of large-scale land acquisitions for natural capital on landownership concentration and the accessibility of land for housing, rural enterprise and new farming entrants, are currently unclear. This multi-layered context for natural capital investment suggests the need for an improved understanding of rural land markets, to ensure policy can be developed based on a sound evidence base to address trade-offs and challenges before they arise.

The findings set out in this report are a preliminary assessment of recent trends in Scottish land markets and key insights relating to market drivers, potential future trends and the current and possible future role of natural capital as an influence on rural land markets. Collectively, these findings represent a step towards improving transparency in relation to rural land market activity, including in relation to identifying and assessing the importance (and underlying drivers) for off-market sales. The findings serve to expand the evidence base for informing future policy development relating to regulation and governance of land markets, as well as for policy relating to natural capital markets.

2 METHODOLOGY

This section outlines the methods used to address the project objectives. There were three linked components:

- I. Scoping meetings and initial enquiries to identify key sources and develop the potential interviewees list/sample;
- II. Desk-based evidence collation and rapid review; and
- III. Interviews with key land agents operating in the rural land market from across Scotland.

2.1 Scoping phase and interviewee sample development

At the outset of the project a scoping phase of work was undertaken, with three short interviews undertaken with relevant contacts from the Royal Agricultural University⁸ (RAU) the Royal Institution of Chartered Surveyors (RICS) and representative from an established land agency in Scotland. These interviews were used to ensure relevant stakeholders were informed of the research at an early stage and involved in refining the research process. In addition, the scoping phase was used to: i) increase buy-in and land agency involvement in the research process; ii) identify any potential barriers to land agency participation in a Scotland-wide consultation on rural land market activity; iii) discuss the project methodology and obtain views on proposed interview questions; and iv) identify potential land agency interviewees/key contacts and relevant sources of evidence on the Scottish land market.

This process built on discussions within the project team (between SRUC and our advisory project partners, Strutt and Parker and Savills) and with the Scottish Land Commission. During this phase of work, a comprehensive list was developed of approximately 25 potential land agency interviewees engaged in the Scottish rural land market and/or holding information relating to rural land market activity. The list was developed following a desk-based approach (identifying the key/lead agency contact for land sales and acquisitions in each relevant agency/organisation), with project partners and scoping contacts approached for their input to refine the list (see Section 2.3). This included searching online for all relevant land agencies, assessing the Scottish Land and Estates business directory⁹ to identify relevant agencies and discussing potential further contacts with initial interviewees.

2.2 Rapid review of existing land market evidence

Following the scoping phase and initial identification of key evidence sources on land markets, a rapid desk-based review of published evidence on land market activity was undertaken to identify longer term trends, market shifts and key drivers and motivations for

⁸ The RAU (Nick Millard) previously led the collation of land sales data at UK level through the previous [RICs/RAU Land Market Survey](#) until 2018.

⁹ Scottish Land and Estates [Business Directory](#)

land sales and acquisitions based on published evidence. This included collation of reports from a range of sources, including:

- Strutt and Parker [Scottish Estate Market Reviews](#)
- Strutt and Parker [Scottish Farmland Market Reviews](#)
- Knight Frank [Scottish Farmland Index](#)
- Savills [Spotlight UK Farmland Market reports](#)
- Savills [Spotlight UK Forestry Market reports](#)
- The [UK Forest Market Report](#) (Tilhill and John Clegg and Co)
- RICS/RAU [Farmland Market Directory and Rural Land Market Surveys](#)

The collated evidence has been summarised in Section 3 of this report, with a focus on evidence relating to 2019-2021, but with consideration of evidence from earlier reports where this is relevant and useful for identifying shifts in land market activity relative to longer term trends. Where available, sources specifically relevant to the Scottish land market have been used to identify recent land market activity and narratives relating to the key motivating factors for the sale and purchase of rural land. Where Scottish-specific evidence is less readily available, UK land market reports have been used either to select Scottish specific figures or to identify relevant wider UK trends in specific land categories of relevance to Scotland (e.g. forestry and plantable land). Notably, as Section 3 represents a review of existing evidence – many of the figures referred to in this report and in the executive summary, are based on summarising and synthesizing the available evidence from existing market reports (as opposed to new primary data gathering).

Importantly, while existing market evidence provides a highly useful starting point for understanding land market trends, existing indexes and market reports often fail to capture off-market activity (an increasingly important feature of the land market), which can reduce their ability to accurately assess the entirety of land market activity. In some cases, market reports have a predominantly UK focus (e.g. the RICS/RAU rural land market surveys and the UK Forest Market Report), making it more difficult to derive specific figures for Scotland, although in some cases these are evident within the breakdown of UK figures. Additionally, the current speed of change (e.g. growth in land values) in the Scottish land market can result in market reports becoming out of date and less representative of current values and market activity very rapidly. Furthermore, market reports are generally industry led, with a current lack of independent market assessment. The second phase of this research will attempt to address these caveats relating to existing market reports, through undertaking analysis of Registers of Scotland data on land sales, to develop a comprehensive and up to date assessment of recent land market sales activity and land values. In addition, this second phase of work will develop a replicable methodology for gathering robust quantitative and qualitative data about land market activity in the future. This findings from this second phase of research will be presented in a second and final project report in May 2022.

2.3 Land agent interviews and thematic analysis

Following completion of the scoping phase, a collaborative approach to raising awareness of the research was undertaken by the Scottish Land Commission, SRUC and project partners, to increase buy-in across the sector. This included organisational awareness raising through

a joint press release setting out the rationale and approach for the research. This included the support and involvement of RICS as the main professional, representative body for chartered surveyors and land agents across the UK. At this stage, a draft set of interview discussion themes was developed and refined through consultation with the Scottish Land Commission and project partners. The final 'long list' of discussion themes and prompts is included in Appendix 1.

The list of potential land agent interviewees (involved in facilitating land sales and acquisitions in Scotland) developed in the scoping phase (see above) was used as the basis for contacting potential interviewees. Twenty key contacts were emailed initially to ask if they would be willing to participate in the research. At this stage, potential participants were also sent a project information sheet (see Appendix 2), setting out the rationale and objectives for the research and the main interview discussion themes. When potential participants responded positively they were provided with a participant consent form (See Appendix 3) and a suitable time for an online interview (via Teams) was arranged. If potential participants failed to respond or were unable to participate potential alternative interviewees from the participant long list were contacted.

In total, 18 interviews were undertaken with a group of predominantly senior and highly experienced land agents operating in the Scottish land market (see Appendix 4). This included agents from 12 of the main land agencies operating in Scotland, four forestry (and plantable land) agents, one land agent operating in the public sector and one agent operating for an agency primarily active in England. The group included agents operating in different Scottish regions and with a relatively diverse range of experience, including agents with a predominant focus on agricultural land transactions, those with a forestry and plantable land focus and some agents with more of a focus on Scottish estates (although most of the interviewees had been involved in land sales across multiple land/holding types). Two interviewees also had specialist interests in natural capital enhancement and investment.

All scheduled semi-structured interviews were conducted on Microsoft Teams and recorded¹⁰, which facilitated the automatic creation of a transcript, which was then corrected by the research team when listening to the recorded interview. Interviews averaged around 55 minutes in length and varied from between 35 and 70 minutes. The key themes discussed during the interviews included:

- i) current broad trends in the rural land market and how these have changed over time;
- ii) current primary motivations/drivers for selling rural land and how these vary across the sector and over time;
- iii) current motivations/drivers for purchasing rural land and how these vary;
- iv) key factors influencing rural land values and how these have changed; and

¹⁰ Two interviewee were not recorded at their request and notes were taken as an alternative form of recording key points and quotes (with the interviewees permission).

- v) the role and influence of forestry investment and natural capital values and markets on rural land markets.

For the purpose of analysis and reporting all interviews were anonymised and given a code (A1-A18). These codes were used throughout the analysis to illustrate the number of interviewees making certain points and the degree of participant agreement or disagreement on key points. The final thematic analysis is presented in Section 4 of this report.

3 LAND MARKET EVIDENCE REVIEW

This section characterises recent land market activity in three key areas: farmland, estates and forestry (including plantable land sales). Most of the evidence in this section is based on recent agency-led land market reports, including the annual UK forestry market reports. Available land market reports offer useful market assessments and the most up to date material has been included where available (including farmland and estate market reviews for 2021). Nevertheless, the degree of off-market activity suggests that most market assessments contain a degree of uncertainty. The high levels of market demand and rapid growth in values, combined with the time lag between market activity and published evidence, suggests that published market evidence may not be fully representative of very recent land market activity (and land values) in late 2021 and early 2022. This section has a broad focus on land sales over 100 acres where this is compatible with the available data.

3.1 The Scottish farmland market in a UK context

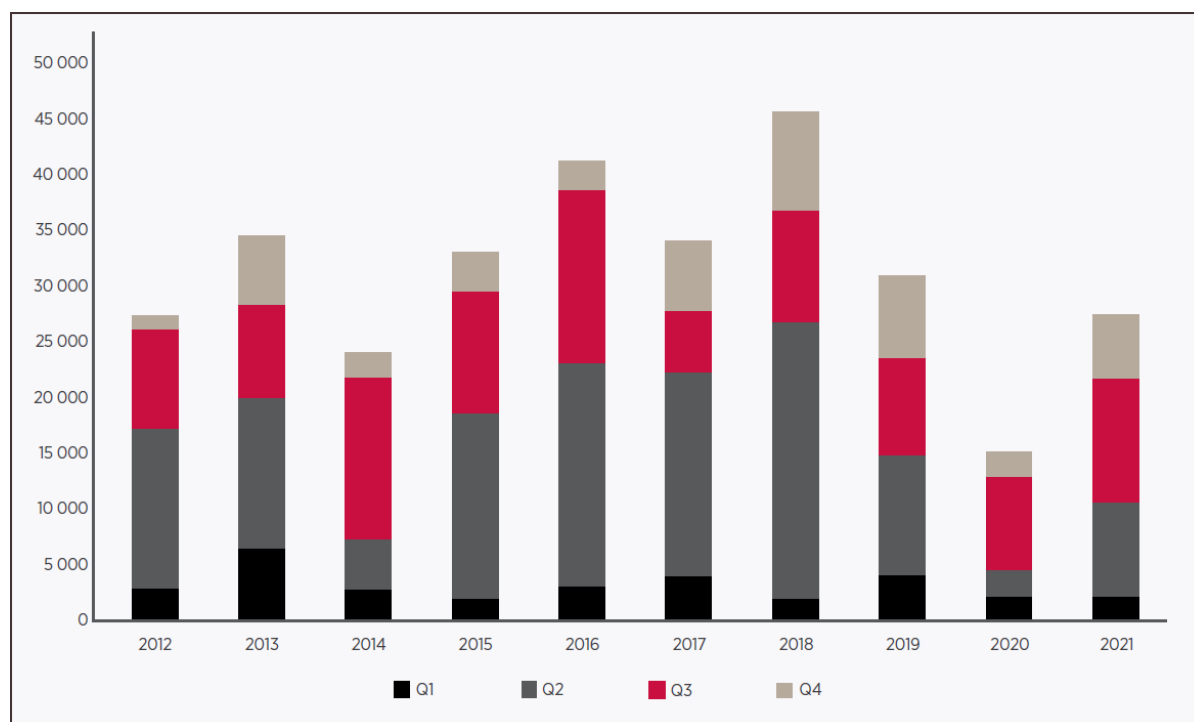
The Scottish farmland market includes a variety of farm or farmland types, including amenity (lifestyle) farms, dairy, livestock, arable, mixed and hill farms. On average around 30,000 acres of farmland has been marketed annually in Scotland over the last ten years (see Figure 1), compared to around 150,000 acres of farmland marketed annually across the whole of the UK since 2010 (Knight Frank, 2021). Over the last five years this has normally consisted of around 85 farm holdings (>100 acres) being marketed annually in Scotland, compared to 200-250 in England (Strutt and Parker, 2021a; 2021b). While regional variation occurs, the UK farmland market has experienced reduced supply since 2019 (from 189,000 acres in 2018), to between 117,000 and 123,000 acres annually in the 2019-2021 period, with **larger proportional declines evident in Scotland** (Figure 1) (Savills, 2019; 2020; 2021).

In addition to a decline in the number of farms being marketed, recent supply of larger farms has also reduced, with only 14 farms over 500 acres marketed in Scotland in 2021 and five over 1000 acres (Strutt and Parker, 2022a). This reflects a UK-wide trend, with smaller farms (<250 acres) having become a larger proportion of the UK farmland market since 1995, with farm sales over 1000 acres making up less than 1% of marketed farms since 2011 and an average farm size for holdings sold in the UK in 2021 of just 160 acres (Savills, 2022a; Savills, 2021a; Strutt and Parker 2021a). This trend relates to several factors, including increased demand for residential amenity holdings and an increased likelihood of retirement in smaller holding categories (Strutt and Parker, 2021a). Notably, retirement from active farming represents a key driver of supply of farmland to the market (Strutt and Parker, 2022a).

Recent years have seen a **marked decline in farmland supply in Scotland**, with only 50 farms (15,100 acres) marketed in Scotland in 2020 compared to a previous five-year Scottish average of 95 farms and 32,800 acres (Strutt and Parker, 2020). This reflects a UK-wide decline in supply over the same period, influenced by uncertainty and a cautious attitude among sellers relating to Brexit and the future of agricultural payments, and

challenges or delays bringing properties to market due to pandemic related restrictions (Savills, 2019; Savills, 2021a). Nevertheless, while supply of farmland across the UK remained low in 2021 (122,400 acres) relative to the ten year average, supply increased from 2020 levels, with an increase of 7% in England and 63% in Scotland (with 27,300 acres and 74 farms in marketed Scotland in 2021) (Figure 1) (Savills, 2021a).

Figure 1 Acres of farmland marketed publicly in Scotland by quarter (2012- 2021)



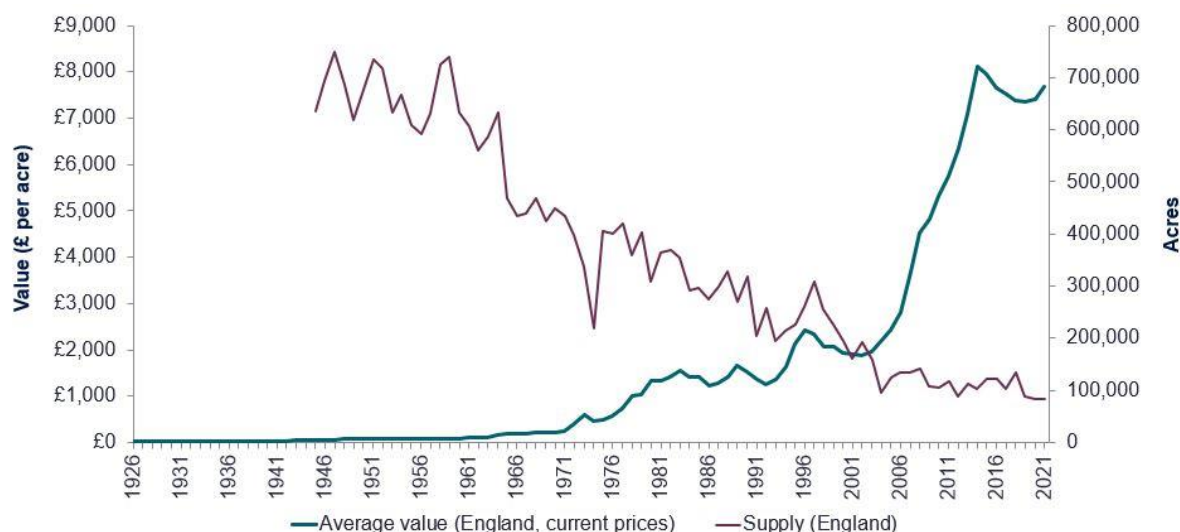
Source: Strutt and Parker (2022a) Scottish Farmland Market Review

The sharp reduction in Scottish farmland supply evident in 2020, while atypical in terms of scale, reflects a longer-term trend of declining supply and rising values in other parts of the UK (see Figure 2). In addition, **an increasing number of farmland sales occur off-market**, with estimates suggesting 30% of Scottish farmland sales in 2020 occurred off-market (Strutt and Parker, 2021b). Reflecting long term trends, farming buyers were the dominant buyer type for farms in Scotland in 2021 (Strutt and Parker, 2022a). However, non-farming (lifestyle and forestry) buyers are an increasingly important part of the Scottish farmland market. This reflects wider UK trends, with non-farming buyers accounting for 38% of UK farmland sales in 2021 and institutional/corporate buyers 16% (Savills, 2021a; 2022). This reflects **a longer-term trend of non-farming buyers growing in importance**, with private investors and lifestyle buyers purchasing over 40% of UK farms annually over the last 4-5 years (Savills 2019; 2020b)

Reduced supply and strong long term investment potential resulted in **increasing demand for UK farmland in 2020-2021, despite pandemic restrictions** (Savills, 2022). This resulted in average per acre values for UK farmland rising by 0.7% in 2020 and by 6.2% during 2021 (Savills, 2022), the strongest annual growth since the 2014 global food crisis

(Carter Jonas, 2018). While average per acre values remain lower in Scotland relative to other UK regions, **Scotland experienced the strongest overall growth (+31%) in 2021, with average per acre values (all land types) of £5,920** (Savills, 2022).

Figure 2 Long term farmland supply and value per/acre in England (1926-2011)



Source: Savills Rural research, Defra (2016)

Notably, **agricultural land quality is no longer the key determinant of farmland values**, due to the increasing influence of capital from outside agriculture (i.e. lifestyle and forestry investors) (Strutt and Parker, 2021a). The **afforestation potential of land is an increasingly key driver of demand, particularly for hill ground**, but also for less productive grassland and marginal arable ground, with farm buyers frequently outbid for plantable hill ground by forestry investors, particularly in Scotland (Savills 2020; Strutt and Parker 2020; 2021b).

This increased demand from environmentally motivated buyers and forestry investors has resulted in the biggest increases in value occurring for plantable land, with **poor livestock land in Scotland having increased in value by 60.8% in 2021, following a 17.5% increase in value in 2020** (relative to an 8.8% increase in value for this land type across the UK in 2021) (Savills, 2021a; 2022; Strutt and Parker, 2021b). This reflects an increasingly large divergence between prices paid for plantable hill ground and hill ground which is unsuitable for afforestation, **with some transactions for plantable hill ground in excess of £5,500 an acre in 2021** (Strutt and Parker, 2017; 2022a). Due to constrained supply, demand for arable farmland has also remained high in recent years, with prime arable land increasing in value in Scotland by 19.7% since 2020 and by 550% over the last twenty years (Savills, 2022; Strutt and Parker, 2022a)

3.2 The Scottish estates market

The term 'estate' is usually used in relation to landholdings with diversified activities, which can include in-hand farming, let farms, sporting, forestry, renewables, property and tourism (Hindle et al., 2014). Although estate sales in Scotland are limited in number, they are an

important niche market, with an average of 32 estates (126,000 acres) marketed annually over the last ten years, with sales usually completing on two thirds of these (Figure 3).

Figure 3 Number of estates and land area marketed and sold in Scotland (2011-2020)



Source: Strutt and Parker Estate Market Review reports (amalgamated data 2012-2021)

The supply of Scottish estates has remained very consistent over the last decade, except for 2013-2014, which saw a downturn (Figure 3), influenced by a cautious approach during the Scottish Independence referendum period. Consistent demand has resulted in an average conversion rate (numbers sold versus marketed) of 62% over the last ten years (Table 1). Scottish estate sales remained consistent during the pandemic, with 24 sold in 2020.

Table 1 Average price, total annual investment and conversion rate for Scottish estates (2012-2021)

Categories	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
Average price (£M)	£3.4	£4.5	£4.8	£3.4	£4.0	£4.5	£2.7	£2.8	£4.7	£8.8	£4.4
Total spent (£M)	£81.5	£77.2	£33.7	£65.5	£98.7	£71.2	£57.3	£67.1	£112.7	£247	£91.2
Conversion rate (%)	64%	67%	33%	61%	69%	57%	58%	67%	64%	77%	62%

Source: Strutt and Parker Estate Market Review reports (amalgamated data 2012-2021)

Despite a similar number of estates being marketed in 2020 and 2021 (and a decline in the total land area sold in these years compared to 2019) (see Figure 3), the total investment in estates in both 2020 (£112M) and 2021 (£247M), represented record increases (with 2021 alone a 119% increase in investment compared to 2020, following a 55% increase in investment on the previous ten year average in 2020) (Table 1). This is reflected in the

average price paid for a Scottish estate in 2021 of £8.8 million, an 87% increase on the 2020 average (£4.7M), despite the total land area of marketed estates (124,000 acres) and average size of estates being marketed (3900 acres) in 2021 remaining similar to the five year average figure in both cases (121,000 and 3700 acres) (Strutt and Parker 2022b). In addition, two estates sold for over £20 million and five for between £10 and £20 million in 2021, compared to only three estates being sold for over £10 million in 2020 and one in 2019, reflecting increased demand and investor interest (Strutt and Parker, 2021c; 2022b)

Similar to farmland, most estates have typically been marketed publicly, with around a third marketed privately on an annual basis. In 2020 this increased to 45% of estates being advertised off-market, with 33% of sales completed privately and **around a third of buyers originating from overseas** (predominantly Western Europe, with increasing interest from the USA, with four estates sold to American buyers in 2020) (Strutt and Parker, 2020). **A marked shift in this trend occurred in 2021, with 64% of successful estate sales occurring off market** (Strutt and Parker, 2022b).

While estates are often characterised as large landholdings, they occur across a relatively broad size range, with **estates marketed in Scotland from 2012-2020 averaging just over 4000 acres** (Strutt and Parker, 2021c). Smaller estates were a particular feature of the 2020 market, with marketed estates averaging 2400 acres, with larger (over 5000 acres) estates coming to the market on an infrequent basis (Strutt and Parker, 2020).

The relatively low turnover of estates reflects **the high degree of continuity of ownership in the estates sector** (Cramb, 2000; Hindle, 2014). This reflects an emphasis by most landowners on the importance of passing their estate on to their heirs, with **estate sales often occurring where the owner has no obvious successor** (Strutt and Parker, 2017b). This consistently low supply has resulted in **very high levels of recent demand for estates in Scotland**. Other factors which drive demand include the rural lifestyle, Scottish landscapes and culture and the relative affordability (and exclusivity) of an estate in comparison to high value city properties. In addition, estates represent an **increasing range of capital growth opportunities**, including renewable energy, sporting businesses, forestry, and investment in housing/property (Strutt and Parker, 2017b; 2018). **Environmental drivers and related markets and incentives have also become an increasingly important motivation for those investing in estates in recent years**, with private and corporate investors interested in carbon offsetting, afforestation, renewables and rewilding, increasingly competing with lifestyle and sporting focused buyers (Strutt and Parker 2021). In addition, an increasing emphasis on support for environmental measures within future government support mechanisms suggests a favourable financial context for land use transitions at larger scales.

3.3 Forestry and plantable land markets

The UK Forest Market report (Tilhill and John Clegg & Co, 2021) represents the most comprehensive evidence source on the forestry land market in Scotland and the wider UK. While many figures are specific to the UK, in several relevant areas Scottish-specific data is provided. Importantly, Scotland also represents the dominant component of the commercial forestry land market in the UK. The forestry land market includes commercial forestry sales and sales of mixed/native woodlands, with recent reports also assessing 'plantable' land

bought for afforestation. **In 2021, reflecting long term trends, Scotland provided 76% of the UK commercial forestry land market.** In total (across the UK), the commercial forestry land market consisted of 67 transactions totalling 10,400 hectares (averaging 155 hectares), an increase from 61 in 2020, despite a reduction of 17% in the total area sold (Table 2).

Per hectare values for UK forests increased by over 20% in 2021 to £19,300, with some younger second rotation forests selling for over £30,000 per stocked hectare due to high tree quality, investment potential and a forest road network (Tilhill and John Clegg & Co, 2021). **Particularly strong growth in productive forestry land values occurred in North and Central Scotland in 2020-2021** (Savills, 2021b). In addition, 36 mixed woodlands (averaging 70.2 acres) changed hands across the UK in 2021, for a total of £10.7M (up from £6.6M in 2020) for 1023 hectares of woodland (Table 2). Scotland accounted for 10 of these sales (for a combined £2.19M), with an average sale price of £2,510 per acre (although two sold for a much higher price of £8,370 per acre).

The UK forestry market has experienced exceptional recent growth, with total recorded investment in commercial forestry land in 2021 (£200.4M) similar to 2020 (£200.2M) (Table 2). This represents a substantial increase from 2019 (£126.5M) and 2018 (£104.2M), with 2021 the largest ever annual investment in commercial forestry land. While the average transaction dropped to £3M in 2021 (from £3.3M in 2020) due to an increase in the number of smaller forests being marketed, per stocked hectare prices jumped to £19,300 (a 21% increase, which follows a 39% increase in 2020) (Table 2). Larger forests (>100 hectares) attract particularly high prices.

Table 2. Total UK Forestry land market activity in 2021

Category (2020 figures in brackets)	Commercial forestry	Mixed/native woods	Plantable land
No. of transactions	67 (61)	36 (30)	70 (33)
Total sold (Ha)	10,400 (12,542)	1023 (750)	6480 (4460)
Total invested (£)	£200.4M (£200.2M)	£10.7M (£6.68M)	£53M (n/a)
Per/ha values	£19,300 (£16,000)	£4,232 (£3,604)	£11,000 (£8,500)

Source: Tilhill and John Clegg & Co (2021) *The UK Forest Market Report*

There were 70 transactions for planting land (for £53M) in the UK in 2021 (compared to 33 in 2020) totalling 6480 hectares (with an average size of 93ha, compared to 139ha in 2020), an increase on the 4460 hectares sold in 2020 (Table 2), with an additional £23M invested in land for natural capital¹¹. Reflecting elevated values for marginal farmland (Section 2.3), plantable land increased in value from an average of £6200 per gross hectare in 2020 to £8500 per/ha in 2021 (or £11,000 per net hectare of plantable ground). **Scotland experienced the sharpest rise in value of 54% on 2020 values for plantable land. This reflects regional demand, with Scotland accounting for 62% of all UK plantable land**

¹¹The actual form of natural capital investment in this case is unspecified in the UK Forest Market Report (2021)

sales (and 82% of total UK woodland creation) in 2021, although the proportion of plantable land sales in England (12%) and Wales (26%) represented a substantial increase from previous years, which may be influenced by increased grant rates in Wales and England compared to Scotland in 2021.

Some of the most dramatic growth in demand for land has occurred in the forestry sector, with demand for all forms of forestry and plantable land remarkably high in recent years, with average sale prices exceeding valuations by around 50% in 2021 (Tilhill and John Clegg & Co, 2021). This represents the scarcity value of forest assets, high timber prices and ambitious government targets for afforestation. Since 2019/2020 demand has increased from institutional investors and financial institutions, with several new rural-investment funds entering the market, driven by increasing demand for environmental investments, and the very strong long term returns from forestry in the last twenty years (Savills 2021b). **This demand has resulted in an increase in off-market transactions for forestry and plantable land**, with off-market sales accounting for a third of sales in 2020 compared to 11% in 2019, which can create challenges in accurately estimating market activity (Savills, 2021b).

The emergence of woodland carbon markets represents a further important driver for rapidly expanding forestry markets, due to the potential for generating additional income from woodland establishment combined with strong interest in investments with natural capital credentials and off-setting potential (Savills, 2020c). **Woodland carbon represents a relevant option for generating income from native woodland schemes on poorer quality land**, where productive forestry is less viable, with a corresponding influence on plantable land prices (Tilhill and John Clegg & Co, 2021) Importantly, while land availability represents a constraint for the forestry sector, the emergence of carbon markets in addition to a buoyant timber market and strong policy drivers for afforestation, suggests growth in forestry and plantable land prices is set to continue.

4 LAND AGENT INTERVIEWS KEY FINDINGS

4.1 Current key trends in the rural land market

Most interviewees referred to **constrained farmland supply and high levels of recent demand** as the defining characteristics of the current farmland market. This was perceived as following on from a downturn in supply since 2018, with a potential upturn in 2020-2021 constrained by the pandemic (A3, A4). This resulted in Scotland experiencing a highly constrained supply of farmland in 2020, with a gradual upturn evident in 2021 (A3, A4, A5). This **recent decline, while exacerbated by pandemic related factors, was also recognised as reflective of a longer-term trend**: *‘the supply of farmland in 2021...was low on any historic basis...but up to thirty years ago....100,000 acres was advertised in a year. That declined to...50 or 60,000 acres around the millennium and declined steadily since....to between 25 and 40,000 acres annually...the last two years being at the bottom end’* (A6). This longer-term trend of declining supply (particularly of larger farms) was seen as influenced by **favourable capital taxation, low interest rates and the strong long term investment performance of farmland** (A3, A4, A5).

Interviewees also collectively recognised the **speed in growth in land values at ‘either end of the market’** since 2020 as potentially unprecedented, with both marginal hill ground and arable land values reaching record highs in some regions (A3, A6). This was seen as related to low supply coinciding with a period of very **high demand, including from the forestry investment sector** (A10, A13, A17) (see Section 4.3.3). Nevertheless, as two interviewees (A5 and A7) noted, **values growth varied by region** and may sometimes be overstated, with some recent drivers (forestry investment and natural capital) less influential in agricultural regions in the south and north-east of Scotland. As these interviewees noted, arable land values had also peaked in their regions previously in 2013-14, with recent growth bringing average arable land values back to (or beyond) previous value peaks. A7 also noted the **potential for localised effects, including the sale of land for development**, which sometimes resulted in farmers being able to reinvest funds into the local land market.

A further identified trend related to a **reducing emphasis on profitability of farms in relation to land values and an increasing emphasis on the importance of capital growth potential**, in the expectation of returns from rising values (A4, A7, A8). As A4 argued, this reflected an increased willingness to take on debt over the last 10-12 years, which is perceived as lower risk due to low interest rates. However, this also exposed land-based businesses to longer term risk relating to potential interest rate rises and reduced capital growth (A4). This increased investment orientation was perceived as a recent phenomenon, as A5 explained:

‘From 1998 to 2002 we had low commodity prices and a series of poor harvests...and we didn’t have Basic Payments in place and land values...were under pressure, because of the lack of profitability and farmers who always have been and remain the main purchasers...simply didn’t have any money and their spirits were low. But profitability isn’t anything like as important in determining value as twenty to thirty, a hundred years ago’.

This emphasis on capital growth is also reflected in the **emergence of several new investment vehicles for forestry and plantable land** in Scotland in the last 3-4 years (see Section 4.3.3). This was strongly reflected in high levels of demand and high prices for plantable land in 2020-2021 (A2, A10, A12). As A10 explained:

'During Covid several new players emerged in the plantable land market. As Global markets become more unstable...financial institutes looked to forestry...it is seen as a good long-term investment supported by government policy' (A10)

Reflecting the review of evidence on the estates market (Section 3.2), several interviewees identified the **recent rapid rise in demand and values for upland estates** as a further key recent trend in the Scottish land market (A2, A7, A12, A14, A15). This has resulted in substantial growth in estate prices, driven by the **increasing importance of corporate buyers** and other factors (see Section 4.3.2). This rapid increase in value and recent dominance of corporate buyers represents a key shift in the market, relative to a consistent level of supply, demand and market growth in the sector over the long term (A12, A13, A15).

4.1.1 Trends in off-market sales activity

Several interviewees indicated that **off-market land sales had increased over the last two years** in Scotland, particularly for sales of estates and plantable land (A1, A2, A3, A4, A5, A9, A10, A11). As A1 noted, this resulted in **land market reports providing sales figures which represented underestimates of market activity**, due to the exclusion of off-market transactions: *'Take the Forestry Market Report.....last year the transactions were maybe £120 million...well...if you add all the off-market transactions...it's probably over £200 million'*. In contrast, a minority of interviewees (A6, A9) suggested that the extent of **off-market activity may sometimes be over-stated**, due to a degree of 'self-publicity', with several agents also expressing uncertainty around the actual extent of off-market sales (A6, A9, A10, A12).

Notably, A1 argued that the start of the **pandemic stimulated an increased emphasis on off-market sales for plantable land** due to viewings being less feasible during lockdowns:

'The larger funds monopolized on that opportunity...by acquiring quite a lot of properties off-market for probably substantially less than...if they'd gone to the open market...because it wasn't possible to put them on the market and encourage people to...view them' (A1)

Other interviewees argued that increased emphasis on **off-market sales was primarily driven by high demand and very limited supply**, which resulted in forestry agents being more proactive in approaching landowners to negotiate land sales (A3, A4, A6, A11). This was seen as **suited to the forestry investment market due to the small number of transactions and limited pool of potential buyers**: *'Sales of afforestation land are quite straightforward because everyone knows who the buyers are, so you don't need to advertise...you just contact the main players' (A6)*.

In most cases **off-market sales were facilitated by forestry agents** (acting on behalf of an institutional buyer/investment fund) either contacting selling agents (to identify prospective sales) or 'cold calling' suitable farms to negotiate a potential sale and gain a competitive advantage through avoiding open market competition (A3, A14). As A14 explained:

'Off market sales are driven by agents acting for buyers...aggressive negotiation...bending all the agents' ears, we have a buyer with X million. They are keen to do it off market to get ahead of the competition...so come in fast with a premium figure...to entice an off-market sale. The lack of supply means limited opportunities, so a motivated buyer will employ an agent because they can flush out opportunities due to the rapport they have with all the selling agents' (A14)

Both A3 and A14 referred to specific examples of large farms (>400 acres) that had been acquired by investment funds through off-market deals, with A3 noting one example where he had sold a farm before it had been put on the open market, and the buyer completed the sale without an on-site assessment. This reflected the importance of time efficiency and being in control of the closing date as a key driver of off-market sales (A4). **The use of these doorstepping techniques to proactively identify opportunities for land acquisitions was seen as limited to a small number of agencies** acting for forestry investors, with several interviewees noting they did not pursue this approach due to the potential for antagonising landowners (A3, A9, A14). As A9 explained, some agents also become involved in off-market sales when approached by an owner:

'Almost everything we do is on market...different people are going for that off-market strategy...We are less interested...but we get involved in off-market if farmers call us up...I've got this land I want to retire...don't like estate agents. Can you guys...bring me an offer?' (A9).

A further **driver of off-market farm sales related to farmer concerns around their neighbours' perceptions of 'selling out' to the forestry sector** (as opposed to prioritising a farming buyer). Some farmers were referred to as using the off-market route to avoid directly rejecting lower offers from neighbouring farms and to reduce local awareness (See Box 1).

Box 1 The role of farmers' and peer perceptions as a driver of off-market land sales

'The farming community, for whatever reason, bizarrely...are the main culprits of selling off market. It comes down to...a culture where they don't want their peers to be seeing them selling up on the open market and not finding out until [afterwards]...down to secrecy. So that cuts them out...but not just that, they know their neighbours can't compete on price' (A1)

'Perception of neighbours is a big concern. The farms where we have sold the land for forestry, the clients were very concerned about...what their neighbours are going to say about selling out to planting, wrecking the local community...that's a worry for them' (A13)

'Farmers are very proud...some like to do it [sell their farm] under the radar as they may have inherited the farm and don't want to be seen to be opting out of farming' (A11)

'There is a lot of resistance to trees in the farming community in our area...was at a farmers discussion group last week and they are resistant...that has an impact...might not outweigh a strong offer but certainly the wider farming community see forestry as a threat' (A17)

'There is a stigma and farmers get a lot of grief from the local community if they sell to forestry. It's not a popular thing at all' (A10)

As some interviewees noted, while off-market sales were often relatively high value, **sellers using an off-market route risked achieving a lower price**, particularly if they are not fully aware of the most current land values (A6). As two interviewees commented:

'I can't get my head around this because I keep saying to farmers, you're mad! Do you sell your cattle through negotiation? No. You take them to auction, open market. So why are you doing this with your most valuable asset? I think it can often be a mistake...I generally tell people they could get them 10-20% better sale price by going to open market' (A1)

'This type of [plantable] land... has created such competition and high prices.... why wouldn't you put it on the open market? There is a...privacy element, but people are paying so much money now I just can't see the logic...to not doing it in an open market' (A12)

In direct contrast to farmers pursuing off-market routes to avoid criticism, two interviewees also referred to examples of farmers pursuing off-market deals directly with their neighbours, to avoid marketing costs and increase privacy (A4, A13). Notably, in both cases the agents operated in relatively strong agricultural regions, with potentially less frequent plantable land sales and several larger farming businesses. As one agent noted (A17), off-market sales were generally not beneficial for selling agents as it reduced the benefits from marketing, both in terms of income and in relation to expanding their portfolios and online presence.

In relation to estates, the amount of off-market sales was seen as increasing during periods of high demand (A2, A12), which was reflected in the high levels of off-market estate sales in 2021 (See Section 3.2). Notably, the marketing of estates also follows a seasonal pattern, with estates normally marketed publicly in the spring-summer period due to the potential for attractive marketing photographs, with off-market activity sometimes occurring in the late winter-early spring period prior to the estate being marketed (A14). Notably, in relation to farm and estate sales, some owners also preferred off-market sales due to the perceived threat of a community acquisition, through a Community Right to Buy application, which had the potential for reducing the potential to capitalise on a competitive open market sale (due to the price for a CRtB acquisition being based on a valuation by the district valuer) (A1).

4.2 Motivations and drivers for selling rural land

Most interviewees identified multiple potential drivers for land sales, including re-location, divorce, a farming partnership split, and releasing capital - although **retirement (or death) was identified as the most frequent driver of sales**. This was often referred to in terms of a generational change, with sales often occurring when farmers are no longer able to farm and have no succession plan (A4, A8, A11, A12, A13, A14). As two interviewees stated:

'Typically...you'll find that it is a change of generation, or family taking a different view sometimes on inheritance...they decide that...realizing the cash is the right thing to do and split it differently rather than hold it all together' (A12)

'It's generational...most hill farmers are proud and stubborn, they work extremely hard and know the value of money...until they are 85 they don't quit...until they fall off their quad bike and their daughter says...come live by me and they have no heir, so farm gets sold' (A11)

Some interviewees identified the **current high values for plantable land** as an **opportunity for farmers to secure their retirement and long-term financial security** for their family, which would not have been possible 10-20 years ago (A5, A8). **Potential changes in agricultural subsidies** (and a further move away from direct support), was also seen by some as a potential driver of future farm sales (due to the impacts on farm incomes) (A14, A17). Interviewees had mixed views on whether rising values would result in an increased supply of farmland to the market, with some arguing that high beef and lamb prices combined with the long-term investment potential of land, increased farmer motivations to retain their holdings (A3, A5, A17). Nevertheless, others suggested that the **marginal position of many farms, combined with recent growth in values was beginning to bring more farms to the market** (A4, A7, A11). As A4 explained:

'There's a lot being done privately...more will be done privately with people realising what they could make, may speed up retirement [...] we are engaged to re-let land for people who've retired but want to hold on to the holding who have now said I've been hearing about prices, is this true...in which case I would like to sell' (A4)

High land values were also noted as influencing land sales for re-investment purposes, with some farms able to release substantial capital from selling marginal ground, to re-invest in diversifying their business, without reducing productivity (A4, A14). As A6 explained, this is an opportunity of increasing importance for some farmers: *'they are now more willing to supply smaller plots...due to the rising values...There is more potential for cash-strapped farmers to gain a cash injection by selling a field, whereas in the past...in the context of high interest rates leading to rapid debt escalation, sales were more likely to be for whole farms'*. An additional feature of the re-investment market related to **farmers selling their hill farms with the aim of reinvesting in a smaller more productive low ground unit**, due to the gap closing between hill ground and pasture/arable land values:

'In the last few weeks we've seen a growing number of people...doing these deals. We have three people on our books who are...selling their farm to...a forestry fund and getting a really good rate, over £5000 an acre. They want to put that into a better, mixed farm...down the hill. Might be less acres, but they want to improve their agricultural situation in the future' (A3)

Some interviewees referred to an **engrained resistance to retirement and selling holdings in the farming sector**, which made future supply trends unpredictable (Box 2).

Box 2 Cultural attitudes in farming as a driver of farm retention

'What they've always done is farmed...don't see themselves doing anything else. I've got a client...well into his 70s, maybe 80s...he's never gonna give up. They would feel...they failed if they sell, especially if they inherited from a line of family farmers' (A7)

'The land market never ceases to amaze me...it is unpredictable, and farmers will hang on because for many, well what would they do and why do they need the money?' (A14)

'Farmers are very cagey and stuck in their ways...don't want to do anything else and don't know what else to do, farm may be worth five million...so the market should drive more farm sales but it's not that predictable. The value of land has woken up and...more players in the market now, might see more coming on because of that but hard to predict trends' (A11)

As identified in relation to drivers of off-market sales (Section 4.1.1), many farmers were also resistant to selling to forestry investors due to their passion for farming (A3, A10, A17). In some cases, this resulted in **farmers accepting lower offers to avoid selling to the forestry sector**:

'In our area that (resistance to forestry) is very strong...these people have spent their entire careers...the whole post war period, they, or their forefathers, have spent improving land and that leads into a bit of a culture...of trees being the enemy and they have real resistance to stuff going for planting. It's fascinating...and frustrating for us in the sense that we've had customers last year selling big properties and refused to take the top offers because they were from forestry investors. One owner...he accepted substantially less than what he could have got...because he felt he couldn't sell it for forestry planting, for all the reasons...the culture of food security, quality ground for livestock...and not wanting to see land that has been worked for generations by farmers go to foresters' (A3)

Nevertheless, as A8 and A17 noted, **in most cases farmers (or family members) motivated to sell their holding were likely to accept the strongest offer**, even if from a forestry buyer. Importantly, these factors were of far greater importance in areas of lower quality land, with farming buyers remaining key for sales of higher quality land (A5, A14).

A further factor driving long term retention of farms (and low supply) related to the potential for retiring farmers to lease their land or engage in contract farming (A5, A13). As A5 explained:

'Contract farming is really why there's been less land sold...because you can keep the house and your 500 acres...you've lived there all your life. You keep the shooting. Less people selling due to retirement than thirty years ago...because of the freedom of business tenancies and contract farming. Let 400 acres of good...arable land and it's £80,000 a year. You've still got your house and your lifestyle' (A5)

As A13 argued, in addition to contract farming, long term retention of land was also highly beneficial from investment and taxation perspectives, particularly in relation to inheritance and capital gains tax, relative to releasing the capital and/or holding it as other asset classes.

4.3 Motivations and drivers for purchasing rural land

This section sets out motivations and drivers for purchasing rural land in relation to three categories: i) farmland and amenity holdings; ii) estates; and iii) forestry and plantable land. While some motivations and drivers are more specific to certain land categories and buyer types (e.g. carbon offsetting in relation to estates and some plantable land acquisitions), overlap also occurs between categories, including in relation to investment drivers. Estates are broadly defined as diversified rural holdings, as opposed to farms or distinct blocks of plantable or forestry land. The 'plantable land' category generally consists of agricultural land bought for afforestation, but it is discussed here in relation to the forestry and plantable land category (Section 4.3.3) to reflect the associated change in land use.

4.3.1 Farming and amenity holdings

Several interviewees identified an **increasing trend for smaller farm holdings (<50 acres) to be bought by non-farming buyers**, with very high demand for residential holdings evident from this group in the last two years (A13). This was seen as **driven by lifestyle factors and the investment potential of residential holdings**, with some recent lifestyle buyers willing to buy larger (>100 acres) holdings, potentially influenced by having sold high value residential properties in England (A3, A11, A17). The recent upsurge in interest in residential holdings was perceived as **influenced by the pandemic and opportunities to work from home**, increased appreciation of the countryside and increased demand for rural holiday homes within the UK (A2, A11). Some interviewees also identified examples of sales of smaller (50-100 acre) holdings which were motivated by an intent to enhance biodiversity on a private basis and/or through taking advantage of environmental payments and grants (A13, A14, A16,).

While forestry buyers represented a key buyer group for lower quality (plantable) farmland (see Section 4.3.3), most **productive higher quality farms sold to large farm businesses in the local area**, with a general trend towards farm amalgamations and increasing farm size to achieve scale efficiencies (A3, A5, A14). Reflecting the estates and plantable land markets (see Sections 3.2 and 3.3), high quality farmland was also identified as a very strong investment. As A14 noted:

'We recently marketed a farm in [a productive agricultural region], 200 acres grade 2 prime arable. House and cottages were lotted separately...pitched it at £12,000 an acre...numerous offers completed at £19,500 an acre...So arable is in very high demand, bought by an established farm business' (A14)

In addition to local farming buyers, some interviewees also identified the **importance of farmers re-locating from England following a high value land sale, to benefit from lower land values and rollover tax relief** (A5, A6, A14). This made productive residential farms particularly attractive to non-local farming buyers (A6). As A5 noted:

'If you've got somebody who has sold...his farm in Yorkshire...and he's made £15 million, he's gonna have to pay capital gains tax...But if he can roll it into another farm, he will defer that tax payment [rollover relief]. And that's quite a motivation for many people as you would imagine, coming up from the Midlands in the South of England to farm in Scotland' (A5)

Farmland demand was also heavily influenced by macro-economic factors, with interviewees repeatedly identifying the importance of low interest rates, with the availability of long-term commercial loans with under 4% interest viewed as an important driver of increased investment in farmland (A4, A5, A13). Nevertheless, macro-economic factors (interest rates, commodity prices, inflation etc.) can also act to restrict market growth and reduce interest in both farmland investment and farming as a livelihood. As A5 stated:

'It's how optimistic you feel in the moment...we've had a very mild, easy winter crops look fantastic here...farmers bought the fertilizer last year so not too bothered...that fertilizer has gone through the roof. Had a jolly good year last year. Why wouldn't you be optimistic, but that can all change in six months. You know if you're...trying to combine through water...dryer is broken down, diesel prices going up, feed prices...and your best man's just

left. You suddenly get a completely different perspective and that influences demand and values. And when that 200 acres next door comes on the market, you're not as keen to go and buy it' (A5)

4.3.2 Estate acquisition and investment motivations

Purchasers of Scottish estates in the past were recognised as consisting predominantly of older, 'self-made' individuals, with the estate market historically correlated with economic growth (A6). The **high running costs (and low profitability) of estates has been accepted by this group due to the longer-term potential for capital growth** and the personal enjoyment derived from owning a large rural property (A2, A6). Personal motivations for estate acquisitions have often included sporting (shooting, hunting and fishing) interests and the seclusion and privacy associated with estate ownership (A2, A7). In addition, estate purchasers were viewed as seeking *'an opportunity...to do something at a landscape scale...to improve the built heritage, and create something, whether that's sporting or farming...or something else that makes a difference in a...short space of time... and to provide and invest in the fabric of the countryside...they are buying a project'* (A2).

Critically, while wealthy older individuals remained a segment of the market, **the pattern of estate buyers was recognised as having shifted in recent years**, with an increasing emphasis on environmental or landscape-scale 'rewilding' motivations and a younger buyer profile (A2, A6, A14). Several interviewees referred to **a decline in sporting motivations among new (and some existing) estate owners**, linked in particular to legislative changes (e.g. licencing of grouse moors) and declining social acceptability of driven grouse shooting (A6, A7, A12, A14, A15) (see Box 3).

Box 3 Changing estate owner perspectives on sporting land uses

'Not sure the straight sporting buyer is in there having the opportunity to compete. There's a real transition...I suspect driven grouse...will be almost impossible because of legislation in the next 3-5 years. Maybe a few very expensive driven grouse moors...because they are jumping through every hoop...I think there's a general change in attitude...as to what is acceptable and the commerciality of that...generations coming up are less accepting of it' (A7)

'There's a definite shift, corporate owners...do not really want to be seen to be encouraging traditional sporting activities because it doesn't fit with their ESG proposals and publicity...There will be a small element of sporting that will continue...deer control...and a bit of deer stalking and walked up grouse. If you take [recent estate purchase] as an example of what is changing...that's your low ground being converted into timber production...then a gradual transition...into native woodland...for carbon sequestration, and then we transition into the higher peatland...to be restored for habitats and peatland carbon. And then your other habitats around that will benefit, because of the removal of intensive grazing, from sheep, deer herds, over burning on grouse moors. So that's an example of how areas will transition from essentially bare hill to a mixture of habitats' (A1)

This evolution of buyer motivations was occurring in parallel with a period (over the last two years) of **exceptionally high levels of investment in Scottish estates and a marked**

increase in off-market sales activity (see Section 3.2). Interviewees (A2, A7, A12, A15) collectively identified three over-arching drivers of this increasing demand:

- **The impact of the pandemic** on societal perceptions of the future way of working and living, including acceptance of working at home. This has resulted in increased value being placed on rural lifestyles and the emergence of the 'rural retreat' mentality, with the high value of urban property offering scope for funding a move to a larger property in a rural setting for some urban homeowners. This had resulted in increased demand (and values growth) for all forms of rural residential properties.
- **The emergence and wider acceptance of the climate and biodiversity crises.** This was seen as having strengthened personal motivations for protecting the environment and enhancing nature, which in turn was gradually altering the 'tarnished' image of sporting estates, towards prospective owners viewing them as restoration projects with the potential for achieving landscape-scale ecosystem benefits. In addition, estates offered potential for carbon sequestration and storage at extensive scales, which was having a significant impact on values (see Section 4.5).
- **Increasing demand on global timber markets, combined with government and organisational commitments to achieving net zero** within fixed timescales. This has resulted in increased demand for plantable land and forests (Section 4.3), with estates often incorporating woodlands and/or the potential for afforestation.

This wider motivational shift has occurred in parallel with **a shift in buyer types, with nearly half of all estates purchased in Scotland in 2021 sold to corporate bodies, investment funds or charitable trusts** (see Section 3.2). As A2 explained: *'the big entry to the market has been the environmental buyer and they are outcompeting other buyers and able to crunch the numbers differently, that's not just investors, there are some wealthy individuals, but also corporates and charitable trusts, which was definitely a smaller element of the market previously'*. Examples provided of recent corporate purchases with environmental (and carbon offsetting) agendas included the acquisition of part of Ralia estate (3500 acres) in Inverness-shire by Standard Life, Glendye estate (15,500 acres) in Aberdeenshire by Aviva Investments and Kinrara estate by Brewdog (9300 acres). Recent corporate interest in estates was viewed as **driven by increasing interest in restoring peatlands and the related potential for carbon offsetting** and developing carbon credits (for offsetting their own emissions or as a natural capital investment) at large scales (A6, A12, A15). As A12 explained, **to be effective, peatland restoration required a large-scale approach**:

'Big areas of discrete, deep, degraded peat will come on [to the market] as part of a wider land holding normally...to manage a restored peatland, you require some control over that surrounding land, so you can manage deer...or...livestock...if you don't have that wider control you might find your restoration is compromised' (A12)

The buying power of large corporates and the potential for additional benefits from acquisitions, such as 'green' investment credentials, has resulted in these buyers valuing estates differently and outcompeting private buyers. As two interviewees explained:

'If you are a large corporate and the purchase price is a very small percentage of your overall business you can afford to be more relaxed about the extent of carbon that might or might not be accreditable in future...when in PR terms it's good for business and the capital value is likely to rise because of the change...is why people are investing in estates' (A2)

'It's an added value to everything that a corporate does...it's an investment in credibly being able to say you take environmental sustainability seriously...with the net zero commitment everybody is operating differently...these corporations...need to tell us a good story...that's where the investment in land comes in' (A12)

Importantly, this 're-valuing' of large estates was partly driven by a speculative approach to investing in natural capital over the longer term, both in relation to natural capital markets and potential future public payments for ecosystem services delivery. As A12 explained:

'Natural capital may have lower returns than a typical investment...and whilst there isn't a direct market for some ecosystem services now like biodiversity...[investors do] want to buy land holdings that provide the potential, for those in the future, not just...carbon credits... Whilst they might not be able to generate any income or credits from them now....to be able to do so in the future has a value and that's why you see these large landholdings being considered the ones for natural capital purchases' (A12)

4.3.3 Forestry investment and plantable land demand factors

As noted in Section 4.1 demand for forestry and plantable land has been particularly high in recent years, particularly since 2020, driven by three main wider factors:

- **Global timber shortages and a corresponding increased emphasis on domestic timber production**, with the aim of providing a sustainable low carbon building material. Combined with the UK importing over 80% of its timber requirements, this has resulted in acute demand for timber (and record timber prices) (A1, A2, A11).
- **Global policy drivers to reduce reliance on fossil fuels and achieve net zero**, which has increased the emphasis by governments, organisations, and land managers on carbon offsetting opportunities. This has increased demand for peatland restoration and afforestation schemes (A4, A9, A10, A11).
- **Strong long term policy drivers for afforestation**, including ambitious Scottish Government targets for afforestation (of 15,000 hectares a year) supported by attractive planting grants. This was seen as sending a strong signal to investors that the forestry sector had the backing of the government, which has implications for longer term support and taxation measures (A1, A4, A10).

These factors have driven **increasing investment interest in forestry**, building on strong investment performance over the last ten years, with capital values having multiplied by a factor of over three since 2010 (see Section 3.3). As A1 explained, this represented a marked shift in the perception of forestry as an investment over time:

'In 1995...harvesting...up in the Highlands...we were sending timber lorries away at cost...every lorry costing £200...clients were saying forestry is a waste of time. Why on earth did I get into it. Roll it forward 25 years and you can't compete with any other investment'

Several interviewees recognised the **growth in importance of established or emergent forestry investors** (e.g. Foresight Sustainable Forestry and Gresham House), with

investment funds¹² seen as the main buyers of both forestry and plantable land in Scotland and the most important group in terms of total new woodland creation (A2, A3, A9, A10, A11). Forestry investors had a variety of objectives, including diversifying (or 'greening') their investment portfolios to deliver on ESG commitments to their underlying investors, carbon offsetting and generating a strong rate of return (A1, A3, A9, A10). Section 4.5.1 provides further findings relating to the importance of investment in timber relative to carbon investment as key drivers of afforestation and demand for plantable land.

As A1 explained, investment fund managers were often required to re-invest annual cash surpluses, which was acting as a driver of investment in forestry assets. Typically, large investment funds operate on long investment timeframes (e.g. 30-40 years) and are therefore often willing to accept a lower rate of return than an individual private investor, in addition to being able to invest speculatively in natural capital (A1, A6, A9).

4.3.3.1 Plantable land demand drivers

These wider market drivers for forestry (see above) were resulting in record prices being paid for afforested and plantable land, with the **recent high levels of demand for plantable land by forestry investors perceived by several interviewees as the most significant recent change in the land market** (see Box 4).

Box 4 Interviewee perspectives on high levels of demand for plantable land in Scotland

'The most noticeable change...is the substantial growth in planting land values. Hill ground that isn't constrained for planting, whether commercial or...broadleaf woodland for carbon. In the last 3yrs...gone from £2000 an acre to £3000 18 months ago now...£4000 plus. There's some average arable land...that's ironically now worth the same as upland planting land' (A6)

'There's been a step change in momentum in this area...cut my teeth buying woods...back then if I got in the year, one 30 to 50 hectare piece of land for planting, I'd be delighted. And then...two years ago...it went from one a year to maybe we should get one a month' (A9)

'Previously I was mainly doing forestry...but that is now changing, with bare land coming on stream for planting projects, carbon sequestration, so our job is effectively changing quite substantially with the demand for planting land' (A1)

'For land above 100 acres the big change has been forestry investors entering the market for planting land. The values of...marginal hill tended to be quite low. But now there's very much a bottom in the market...a forestry buyer will pay £4000 pounds an acre or more...that's an extraordinary development and has changed the market considerably' (A13)

¹² Forestry investors include individual private investors, as well as charitable trusts and corporate investment vehicles (which may have multiple underlying individual investors). In the majority of cases the management of the forestry or woodland creation scheme being invested in is undertaken by a forestry management company.

As an illustration of this demand, several interviewees referred to **investors regularly buying land for planting without formal planting consent** being in place (A1, A6, A7, A9, A10). This created risk and uncertainty for investors, which necessitated a higher rate of return from forestry investments. Nevertheless, this did not appear to be constraining the market, with investors generally taking professional advice and consulting with Scottish Forestry to determine what types and extent of planting are likely to be permissible (A7, A9, A10). As A6 explained, most acquisitions for planting represented investors taking an informed risk:

'I've sold, some parcels of land...to commercial forestry investors or forestry companies. They're buying without planting consent...But they've done their research...and made an informed decision...in some instances it's still two years before they have a planting consent...it's not a leap of faith, but it demonstrates the strength of the market' (A6)

The high levels of demand and buying power of forestry investors was noted as resulting in **farmers commonly being outbid by forestry investors for plantable farmland in the last two years** (A1, A3, A13, A14). As A1 explained, this was compounded by uncertainty around future farm incomes:

'Farmers would probably bid for it, but they can't afford it. Because the returns from farming...are so marginal, compared to land values. I've spoken to a number of farmers, and they've said no, we can't compete because they have to borrow the money....and against what they...make out of farming, which is...uncertain now because we don't know what subsidies are coming next, so it's very difficult for farmers to compete with forestry investors' (A1)

Some interviewees (A1, A6, A10, A13, A14) also noted that **forestry investors had expanded their focus to a wider range of land holding types**, including purchasing smaller parcels of land and whole farms (as opposed to previously focusing on bare land lots over 200 acres) and selling off the residential and other components separately. As A14 noted:

'A farm in the borders last year, whole mixed farm, house and two cottages and buildings, that was all bought by forestry. Two years ago it would have gone to a farming buyer, and there would still be farming interest, but...approached us off-market and paid a premium price' (A14)

Three interviewees also referred to an **increasing incidence of better quality farmland being acquired for afforestation**, due to the lack of land supply, combined with grant availability and the strength of timber markets (Box 5).

Box 5 Interviewee comments on better quality land being acquired for afforestation

'There's been a shift of buyer profile for stock and hill farms...Ten years ago hill farms were being bought by sheep farmers...planting...wasn't viable...but subsidies and timber markets have made it viable to come down to the flatter farms, so they are able to buy them. For hill farms the trend for forestry buyers has been seen for a few years, but in the last 18 months to two years it's noticeable it's moving to stock and secondary arable' (A14)

'Class 4.1 dairy farms are going to planting now. Recently...sold two former dairy farms ...decent quality plowable grassland class 4.1 4.2....to forestry buyers who are buying it...the house and steading and a few acres will be sold off and the land planted' (A13)

'It jars a bit when they're buying up good plowable fields, when there's ground above...unplanted...the market is not always being selective due to the very high demand which risks some good land being used when poorer plantable upland ground isn't planted...because it isn't available' (A3)

'Grassland units are either bought at significant premiums by other producers or more often investors for forestry...Anything that could be planted in trees has probably doubled in value in last 12 months. They're buying dairy farms...at £4-5000 an acre...People off market offering £5000 an acre for hill pasture to plant...That's not happening so much for arable' (A4)

However, other interviewees argued that **the acquisition of better quality land for planting was regionally specific**, with regions with larger areas of high-quality agricultural land potentially more able to absorb some loss of some lower ground farmland:

'It's all within the context of this region, so...here the poorer agricultural land starts at about 4.1...a sort of line in the sand there for planting...but that may be different in other regions...in East Lothian they probably...[would] plant on Grade 3.2...because that's seen as the poor land for the area' (A3)

In addition, others argued that **agricultural land with the capacity to generate a profitable annual crop, was likely to continue to generate sufficient interest among farming buyers to out-compete forestry interests** and that larger (>300 acres) profitable farm units with better quality land and buildings were continuing to generate strong interest from local and non-local farming buyers (A4, A9, A13). As A9 explained:

'the value of the land...once you take away...area-based payments, is a battle between an agriculture and a forestry investor...That's a good way to test what's the...best use of the land...it's testing actual capital that people are prepared to put at risk and real assumptions...it's limited areas...where forestry could outbid agriculture, which intuitively makes sense, it's only going to be land that can't make much money on agriculture...where forestry would...really pay more' (A9)

Other interviewees argued that **the acquisition of better quality land by forestry interests may be over-stated and** that forestry often represented a more viable use of marginal agricultural land (A6, A7, A13). As A6 put it: *'The Scottish farmer has done several editorials and the letters...decrying the march of forestry. But...there are many, many fewer sheep in*

*the hills...than 20-30 years ago. So not convinced that there's a real loss of farming grounds to forestry yet. There are many, many acres that are not being farmed'. As A1 and A10 explained, there were also political barriers to planting better quality farmland (and purchasing farms for forestry), including the consultation process for new planting proposals with Scottish Forestry. Nevertheless, the high current levels of demand for land for planting and the uncertainty around what was acceptable in relation to planting better quality land, led to some interviewees **calling for greater policy clarity on which land categories were deemed acceptable for planting in different parts of Scotland** (A1, A3, A14).*

4.4 Valuation and determinants of rural land values

Several interviewees (A1, A2, A4, A5, A8, A13, A14) noted that undertaking valuations of rural properties was becoming increasingly complex and uncertain for three reasons:

1. The recent very **rapid growth in land values, which reduced the number of comparable local sales** available to use to determine the value of a property.
2. An increasing emphasis on acquisitions linked to a land use change (e.g. afforestation) which increased **valuation complexity due to uncertainties around the permissibility of the change.**
3. The **potential for different buyer types (corporates, wealthy individuals, farmers, etc.) to value land differently**, based on their degree of speculation on factors such as natural capital values, timber markets and environmental support schemes.

Additionally, while underlying determinants of the value of higher quality agricultural land (soils, climate and location) remain similar (A6, A14), the basis for valuing estates and hill ground was recognised as having changed rapidly, from a previous focus on sporting values (grouse bags, stags etc.) and standardised per acre values for rough grazing land, to an approach based on natural capital and land use potential (A2, A7). As A14 stated:

'For estates we never used to look at the value of the hill ground, now we are almost disregarding the sporting but valuing the peatland and the plantability. The historical approach...looked at the houses and cottages and for the ground it might be sporting potential...That's completely out the window'

Two interviewees (A2, A12) also identified an increasing emphasis in valuations and sales particulars for larger landholdings on providing **professional assessments of the extent (and condition) of peat and plantable land**, and the related carbon investment potential. Some viewed this increasing complexity of valuations as **increasing the importance of using specialist professional valuers**, with valuation becoming increasingly sophisticated (A11, A12). Critically, the valuation process required a market-led approach based on previous **comparable sales evidence, which for natural capital was emerging, but currently limited** (A2, A4, A7, A12, A13). As A12 and A14 explained:

'Valuation has to look backwards rather than forwards. There's a bank of evidence building...but held by agents at the moment...until it hits the public registers, to say...that wasn't because of X brace of grouse...That was because of...250 units of carbon generated by planting trees on that hectare' (A12)

‘Sometimes we’re seeing people come in with offers that are twice the asking price...and there are still not yet many large transactions to draw evidence from for this. Also it depends on the type of ground, the topography, peat content, plantability’ (A14)

This lack of relevant comparable sales examples related to a wider recognition that further analysis of land sales data was required to identify the extent of sales related to a land use change, whether the objective related primarily to timber production or carbon (or both), and the related impacts on values (A5, A9) (see Section 4.5.1). Additionally, as A9 explained, plantable land transactions often included buildings as well as areas of land which were either unplantable or where productive forestry would only be permissible on a proportion of the land, which created challenges in accurately estimating the value of net plantable hectares of land.

4.5 The influence of carbon markets on rural land markets

Most interviewees recognised that in practical (marketability) terms, natural capital currently mainly related to carbon, due to the development of functional markets for woodland and peatland carbon (through the Peatland and Woodland Carbon Codes). Nevertheless, other forms of natural capital (biodiversity, freshwater etc.) also hold value for investors, whether linked to ESG commitments, personal motivations, potential income from environmental payments and longer-term speculative investment values (A2, A9, A12, A15). As A4 and A5 noted, natural capital was not currently a key driver of the farmland market (excluding plantable land). The importance of natural capital and specifically carbon, was therefore **of greater importance in upland regions and areas with larger extents of peatland, lower quality agricultural land and smaller less productive farm holdings** (A3, A5).

These factors have resulted in natural capital becoming an increasingly important influence on upland estate values (see Section 4.3.2) (A1, A2, A4). In addition to the potential for generating income directly from carbon markets, several interviewees **linked natural capital investment with the potential for obtaining future environmental payments for the provision of ecosystems services** (A3, A6, A12, A13, A14, A17). This combination of **carbon markets and future environmental payments was also referred to as an opportunity for longer term (post-retirement) retention of farms and estates**, due to the potential for lower day-to-day maintenance and reduced input costs (A2, A3).

Several interviewees (A1, A2, A3, A4, A5, A6, A7, A9, A12) also referred to risks associated with carbon markets as a dis-incentive for landowners, which lessened the potential impact of carbon markets on land values. Specific risks included:

- **The emergent (and relatively under regulated) status of carbon markets**, which was poorly understood among the landowner community and concern around whether carbon units would be used to offset avoidable emissions (A5, A9).
- Increasing **concern among landowners in relation to future requirements for their businesses to be carbon neutral**, which has resulted in landowners increasingly retaining carbon units from woodland or peatland schemes, to facilitate future offsetting of their own activities, or selling some units as values rise (A1, A7, A12).

- **Concern relating to natural hazards and tree losses/slow growth rates**, including from tree diseases, increased storms and forest fires resulting from long dry periods and increased fuel loads (from reducing rotational heather burning and increasing tree cover), which may also damage peatlands (A1, A3, A6, A7, A9, A12).
- **Uncertainty around carbon prices over the longer term**, related to: i) the potential for international markets to supply large volumes of carbon credits at lower value to UK businesses; and ii) uncertainty around whether the government may develop a carbon tax, which could reduce demand for voluntary carbon credits (A2, A7).
- **Concerns relating to the liabilities associated with carbon schemes** and the implications for future owners in terms of management commitments, should the scheme be impacted negatively. Some interviewees also expressed concern around how the sale of the underlying carbon would impact on land values (A1, A4, A6, A7).

Critically, some interviewees highlighted that risk factors were a normal part of land-based investment, particularly in relation to longer-term decision making, with the risks associated with carbon simply requiring adjustments in risk assessment processes (A2, A9, A12).

4.5.1 Carbon versus timber as a driver of investment in afforestation

Reflecting motivations for estate acquisitions (Section 4.3.2), the potential for deriving benefits from carbon sequestration (through offsetting or investment in carbon credits) was recognised as growing in importance among forestry investors (A4, A9, A10). This was recognised as a recent shift, with **investors beginning to diversify their objectives towards afforestation schemes with environmental and carbon offsetting components in response to climate and policy drivers** (A9, A10, A13). As A6 explained:

'Up until twelve months ago...the main motivation for forestry investors was commercial forestry, trying to find land with as much Sitka potential as possible, 50%, ideally 65%. Now there are some new motivations...growth of carbon investors, and some doing it for altruistic reasons...some speculating on future carbon value' (A6)

Woodland carbon schemes were seen as having increased in attractiveness due to the functionality of the Woodland Carbon Code and improving carbon prices¹³, with the combination of afforestation grants and the potential sale of carbon credits increasing the viability of woodland carbon schemes on poorer ground. Critically, as A9 noted, as **woodland carbon schemes required new woodland creation** (as opposed to existing woodlands), any increased emphasis on investment in carbon offsetting was likely to further increase demand for plantable land.

Despite this recent upturn in investment interest in woodland carbon, interviewees generally agreed that the **over-riding driver for investment in both forestry and plantable land remained the high levels of demand and high current prices for timber as a tangible**

¹³ Under the [Woodland Carbon Code](#) the price varies, depending upon the costs of creating and managing the woodland and the benefits that it provides. Within the UK, companies are paying between £7 and £20 /tCO₂e for purchases of Pending Issuance Units (PIU). Most interviewees in this study referred to a current price range of £15-£20 for PIUs. Notably, a PIU price of £15 would equate to an estimated carbon return of £4500 per hectare assuming 360 tonnes of carbon per/ha over the life of the scheme (minus a 20% buffer for tree failure etc.). This is in addition to woodland creation grant scheme payments (see [here](#) for current rates).

and sustainable asset (A1, A9, A10, A11, A14). Some interviewees also noted the potential for the role of carbon (in driving demand for land) to be over-stated, due to lower awareness of the role of timber markets and press coverage around recent high profile estate acquisitions, which were partly driven by carbon investment (see Section 4.3.2) (A9, A11). This **emphasis on the role of productive forestry investment was reinforced by global timber market insecurity** (A1, A9).

In practice, the relative importance of timber or carbon investment related to the underlying land capability and the permissibility of different forms of woodland planting (i.e. likelihood of obtaining planting consent related to factors such as designated sites and/or peat soils etc.) (A2, A3, A9). Woodland carbon schemes are generally better suited to more marginal land, due to the additional requirements of the Woodland Carbon Code¹⁴ and the reduced potential for commercial timber production, with larger schemes able to incorporate both timber production and woodland carbon scheme components to provide supplementary income (A1, A9, A11). The **permissibility of productive conifer planting (as opposed to native broadleaf schemes) therefore had a critical impact on the relative value of the underlying land**. As A9 explained:

'Pivotal factor is what will be permitted. Because natural capital buyers become irrelevant if conifers can be planted because they'll be outbid by the timber buyers...the business cases are a step change higher in value...the values are determined...by...whether people are looking to invest based on long term timber return...or on a carbon income... Timber...at the moment...is worth more...than if you were only able to do natural capital' (A9)

4.6 Future market trends and wider market effects

This section summarises findings relating to future land market trends, as well as in relation to the perceived social impacts of land use transitions resulting from landownership change, perceived land market effects on landownership diversification and the opportunities associated with recent shifts in the land market. The final sub-section summarises key points relating to the potential for increasing land market transparency and related constraints.

4.6.1 Future land market trends

Several interviewees referred to 2020-2022 as a highly unusual period for rural land market activity, in terms of the supply-demand imbalance and speed of growth in values (A1, A2, A8, A9, A12, A14). While most were reluctant to make predictions, interviewees generally agreed the land market was likely to continue to experience strong growth due to four main factors:

1. **Continued low supply and high demand** for land as a finite resource with an increasing range of demands being placed upon it (A4, A5).
2. **High levels of private wealth together with low interest rates and higher acceptance of debt** among prospective owners (A3, A4, A5, A6, A13).

¹⁴ Under the financial consideration within the Woodland Carbon Code criteria, a project is only 'additional' if it requires carbon income to turn it from a project which is not financially viable/worthwhile (in its own right or compared to an alternative non-woodland use) to one which is financially viable.

3. **Long term climate change mitigation drivers** including government commitments to increasing afforestation and achieving Net Zero (A6, A9).
4. **Increasing pressure on global timber markets and food supply chains** related to global conflicts, population growth and increasing global demand (A10, A11, A14).

Despite this apparent consensus around future market growth, some interviewees also highlighted the unpredictable nature of the land market due to uncertainty around how high land values will impact on future supply, with **increased supply potentially reducing the pace of growth in values** (A2, A3). Wider economic factors such as inflation, rising interest rates, or changes in capital taxation, were also recognised as having the capacity for slowing growth (A4, A6, A7). Additionally, future land reform policy was perceived by some interviewees as potentially acting as a constraint on the land market, due to the potential for investors to be concerned in relation to ‘right to buy’ measures and other additional controls on ownership and land management (A1, A4).

4.6.2 Implications of land markets for land use transitions and communities

4.6.2.1 Social and cultural impacts of land use transitions

While most interviewees felt the longer-term implications for rural communities of the growth in land values and changes in market actors were uncertain, several recognised the **potential for social and cultural impacts due to the potential for relatively rapid and large-scale land use transitions** (A2, A6, A7, A13, A15). The potential impacts related primarily to **loss of rural community members (and families) dependent on the land use status quo**, including those employed in estate-based sporting activities and hill sheep farmers (A2, A14). As A4 noted, the **socio-economic impacts of land use transitions are likely to be regionally specific**, due to strong farming regions being less likely to be affected by extensive land use change. Furthermore, decline of marginal farm holdings and diversification of rural communities was recognised as occurring due to a wider range of factors, including subsidy shifts, agricultural intensification and in-migration (A2, A13).

The impacts for communities of estate acquisitions by corporate owners were perceived as uncertain, partly due to the relatively recent rise in importance of this type of owner (A2, A7). While some expressed concerns relating to the potential for corporate owners to focus primarily on investment returns (A7), others suggested that **corporate owners offered potential for bringing new approaches and resources to community development** due to their need to ensure social acceptability (A12, A15). As A12 stated:

‘They have more resource...to...bring in expertise and engagement and consultation...and deliver community impacts...more means to invest in communities...We might find that we learn something from some of these owners...because of their ESG commitments, they might work truly hard at the social aspects...and make sure that communities do realise the benefit...a negative impact would be to displace communities...so what’s going to happen to upskill those communities to fill a different role...or incorporate an existing set of industries and ways of life into...a new land use. They have to do this...to not be driven out...by the community, or politicians’ (A12)

Furthermore, the financial capacity of many new corporate and wealthy private estate owners was recognised as **offering considerable potential for large-scale habitat restoration and woodland expansion, because of evolving owner objectives** (A2, A12). This was perceived as driven both by natural capital investment and a wider public shift away from the acceptability of sporting activities (see Section 4.3.2).

Some interviewees referred to the need to 'find a balance' between woodland and peatland restoration on newly acquired holdings and the **need to safeguard farming and food production in rural communities**, as well as encouraging smaller scale integrated approaches to woodland creation such as agroforestry (A1, A2, A3, A6, A14).

4.6.2.2 Land market effects on landownership diversification

Interviewees expressed mixed views on how current land markets might affect landownership diversification. The impact of investment forestry was perceived by some as potentially re-concentrating ownership, should a small number of large investors acquire multiple land parcels over time (A4). Nevertheless, as others noted, forestry investors consisted of a relatively diverse group, with new investment vehicles (often with multiple underlying investors) having emerged in recent years, and **the effects of forestry investment on landownership concentration requiring further analysis to determine the impacts** (A9).

In contrast to these potential re-concentration effects, some interviewees argued that the shift in buyer types for plantable land and smaller farms was diversifying ownership, due to the potential for farms to be split into areas of plantable ground (sold to forestry investors) and residential smallholdings (sold to lifestyle buyers) (A4, A10, A14). As A4 explained:

'I think it's a bit of both [diversifying and re-concentrating landownership]. It depends how you want to define diverse... You see where smaller family farms were either struggling on or selling, and they're becoming swallowed up by their neighbours, because they're not a viable unit, whereas now those are being split and potentially one farm in one family is now being owned by two different people... someone from a lifestyle or equestrian angle, and someone from a forestry or investment angle. Or potentially the neighbouring farm owning a bit of it and some lifestyle person running a bit of it' (A4)

Notably, the increased extent of corporate ownership of estates was also recognised by some interviewees as a new form of ownership diversification (A12, A15). As these interviewees noted, while an estate sale from a private owner to a corporate owner did not increase the number of owners, the rise of corporate owners represented a diversification in owner types, with related implications in terms of the diversification of management approaches (A12, A15).

4.6.2.3 The potential for delivering co-benefits and joint ventures

Notably, increased corporate ownership of estates was occurring in parallel with an emphasis in recent years on initiatives to support greater community ownership of land (and community input to land use decision making), with related opportunities for private/corporate-community collaboration (A10, A12). One area noted as offering possible **future potential for delivering co-benefits related to community natural capital funds**

(following a windfarm community fund model) (A12, A15). As A12 explained, this was currently limited by comparatively low returns but may offer some future potential for willing owners:

'It is much more marginal gain in planting trees for carbon...than a windfarm...just viable at £15 a tonne...that's the only income that'll conceivably come from it. Not quite enough margin to set aside significant sums for communities...but it will get to that point ...but not the same guarantees as for windfarm incomes from...subsidies. I don't know whether it's a percentage of the capital...or when these huge carbon prices come...but I think the principle is right'

Capitalising on opportunities linked to new ownership structures was perceived by some as **requiring novel and pro-active approaches to developing joint-ventures, both on the part of new owners and communities and other local stakeholders**. As A12 explained:

'One thing we have to work at...is harnessing this new power....and the resource...we can find...legal structures that we can partner either existing landowners with these corporates, or...with local businesses, to get into agroforestry and ecotourism and make sure that actually the resource that comes with this empowers those communities. There's an appetite for it...but we probably have to...go to them and say here's five really good businesses, that are connected to the land...why don't we have a joint venture structure where they work in a particular way with you?' (A12)

Others highlighted the **potential for new owners to learn from established approaches for empowering communities** including community land trusts and community partnerships with Forestry and Land Scotland through the Community Asset Transfer Scheme (and previous National Forest Land Scheme) (A10, A2, A15).

4.6.2.4 Transparency in the rural land market

Interviewees had mixed views on whether new measures were required to enhance the transparency of land markets, with several broadly in favour of some measures being taken to enhance market transparency (A1, A2, A9, A10, A12, A15). A2 and A9 argued that the current system of title registration in Scotland was relatively antiquated and the **increasing importance of ownership by corporates and investment vehicles (and the absence of sales price data on some title registrations in Registers of Scotland) necessitated a clearer and more transparent approach to land sales**. In contrast, **some (A11, A13) argued that the need for greater transparency was over-stated** and further measures to increase transparency were unnecessary for four reasons:

1. The current legal framework around land sales functioned well in terms of minimising illegal activity and using professional surveyors and lawyers to facilitate sales and acquisitions and collect land transactions tax payments.
2. Sellers and prospective owners had a right to a degree of privacy should they choose to sell off-market and off-market sales were an accepted part of the land and wider property market which were subsequently recorded on Registers of Scotland.
3. Off-market sales and acquisitions provided sellers and buyers with the opportunity to avoid marketing fees, achieve competitive prices and complete transactions quickly.

4. Some land agencies currently invest staff time in collating land sales data as the basis for providing comparable sales for valuations. This represented part of the business model for some agencies in terms of undertaking informed valuations, with a public register of sales potentially reducing the need for this data and the demand for professional valuation services.

In relation to increasing market transparency, **some interviewees proposed an online land sales register, which recorded key information (including sales price) at the point of paying the land transactions tax** and therefore constituted a rapidly updating public record of all sales (See Box 6)

Box 6 Interviewee perspectives on developing an online, open-source register for land sales

'In other parts of Europe...they have a cadastral system...where everything is registered and I do wonder why we don't have something like that to monitor land transactions. That could occur at the point of paying the land business transaction tax as that is calculated on the transaction value...It would be simple to change that. And say...what kind of property it is. It could then be registered to some type of database showing the sold price and the date' (A1)

'In some countries in Europe...if you if you buy a piece of forest, you just go online and the whole thing is done within a matter of days, no solicitors and...completely transparent. You can go online and see who owns what...no opaque areas.' (A9)

'I think the public registers...I mean a real properly functioning, transparent public register of land has to be a good thing to have that in Scotland' (A12)

Some interviewees also expressed a degree of support for the **further development of a public interest test for large-scale acquisitions over a certain threshold**, while expressing caution around the interpretation and definition of the 'public interest' (A10, A12, A15). Others (A5, A11) expressed concerns around whether such measures would be effectively regulated over the long term, placing an emphasis on the importance of effective wider controls on sustainable land management, as opposed to a singular focus on new landowners. In this regard, A12 and A15 both highlighted the **increasing potential for long term management plans and annual impact reports (based on environmental and community benefit indicators) for larger holdings**, an approach which is currently being adopted on some larger estates and by some corporate owners. This could provide a basis for monitoring public interest outcomes, as well as providing owners with an opportunity to highlight their impacts over the longer term.

5 SUMMARY OF KEY THEMES AND CONCLUSIONS

The findings presented in Sections 3 and 4 of this report illustrate several key recent trends in the Scottish rural land market, including **low levels of supply and high levels of demand for farmland, resulting in rapidly rising values, with average farmland values increasing by over 30% in Scotland in 2021**. Some of the most significant growth in values **has occurred for plantable hill ground, which increased in value** by over 60% in 2021, which is resulting in overall average land values being increasingly driven by values for plantable land. Nevertheless, **arable land values in Scotland have also increased markedly in value in recent years** and have experienced further growth in 2021-2022. Due to a combination of wider global pressures including food security, climate change and net zero commitments and global timber shortages, in addition to low interest rates and high levels of personal wealth in the UK, current low levels of supply, high demand and strong land values growth appear likely to continue in Scotland in the short term. In addition, wider global uncertainty may act as a driver of further investment in land and forestry due to the longer term stability of these sectors.

Notably, **further growth in land values may influence an increase in supply of farmland to the market** in the future (due to the potential to fund retirement or reinvestment in farm businesses). However, **this may be counteracted by other factors, including a cultural emphasis on farm retention and alternative options for retiring farmers**, including transitioning to a low input land use system (e.g. forestry managed by contractors), contract farming or leasing arrangements. Additionally, while further reduction of farming subsidies may increase the likelihood of some farmers exiting the industry in the future, this factor does not yet appear to be having a strong influence on sale or retention of farmland in terms of actual sales volumes in Scotland.

Long term investment potential has become an increasingly important driver of land acquisitions across the land market, with non-farming investors more prevalent in recent years, including in relation to lifestyle buyers for amenity holdings and in relation to forestry investment (for plantable land). **Institutional investors including investment funds, have increased in importance in relation to acquisitions of forestry and plantable land in the last two years in Scotland**. This increased interest is driven by a combination of factors, including the ESG commitments of investment funds, afforestation policy and planting grants availability, strong timber markets, carbon market development and the strong long term investment performance of forestry. These factors have been further compounded by global volatility and uncertainty, which has increased investment interest in forestry and plantable land across Scotland. As a result of these factors, **on (plantable) marginal agricultural ground farming interests are frequently being outcompeted by forestry buyers due to the investment potential of forestry**. Notably, the evidence presented in this report suggests the strength of demand for planting land as a highly limited resource is resulting in investors beginning to broaden their focus to acquiring pasture land and secondary arable land in some regions. While annual productive output (and profitability) remains a critical component of arable and higher quality pasture land value, **the increased role of non-farming investors has decreased the importance of profitability relative to long term investment performance as a driver of land values**.

As apparent from the findings presented in this report, **off-market sales represent a growing proportion of land market activity** in Scotland. This trend is apparent across land categories, with estimates (see Sections 3.1-3.3) suggesting that around a third of farmland and forestry and plantable land sales occur off-market, with this figure rising to 60% for estate sales in 2021, a marked increase on previous years. Nevertheless, there remains a degree of uncertainty around the estimates of off-market sales in certain sectors and regions. As evidenced by land agent perspectives (Section 4.1.1), the **extent of off-market sales is primarily a function of low supply and high demand**, with off-market acquisitions particularly apparent in relation to pro-active forestry investors seeking off-market sales of plantable land. In addition, some farm sales may occur off-market due to farmer concerns relating to negative perceptions among the wider farming community of the loss of farming holdings to other land uses. **In practice, any increasing emphasis on off-market sales activity may act to exclude certain potential buyers** in favour of others (e.g. institutional/corporate investors known to be active in the market), which may further constrain access to land for individuals, communities and businesses. Additionally, while a range of information on land market activity exists, the lack of a comprehensive, independent land market assessment (combined with the high degree of off-market activity) **creates challenges for comprehensively assessing land market activity and drivers of sales, acquisitions and land values**. Importantly, given ongoing low levels of supply and high demand, **off-market activity is unlikely to decline (and may increase) in the future, potentially decreasing the buyer pool and further reducing the transparency of the land market**.

This increased demand for land in Scotland has been **driven by the long-term investment potential of forestry, natural capital markets (and carbon offsetting potential), high value timber markets and policy drivers for afforestation**. Investment and natural capital values are acting as a particularly important driver of estate sales, including by corporate buyers, driven by ESG and net zero commitments and increasing interest in carbon investment and large-scale offsetting (particularly in relation to large-scale peatland restoration). This is evident from the **unprecedented increase in average estate prices over the last two years** and a marked increase in total investment (of 112% on 2020 levels) in estates in 2021. As evident from recent estate acquisitions, **corporate buyers have the capacity to outbid other buyer types and can generate additional benefits from acquisitions** of potentially lesser importance to a private/family buyer (e.g. investment diversification, offsetting and PR benefits). The related rapid growth in land values (and recent shift towards valuing land in relation to the extent of peatland and the permissibility of planting) has **increased the complexity of accurately valuing some land types**, which is further compounded by different buyers perceiving underlying values differently and the lack of recent sales examples in some regions to use for comparable valuation.

In addition to the impact of carbon markets on demand (and values) for estates, the **potential for generating income from carbon units can be an important factor for increasing the viability of broadleaved woodland creation and ‘topping-up’ grants in more marginal ground areas** with higher costs and limited returns, or as part of a larger mixed/productive forestry scheme. Importantly, perceived risks relating to carbon markets represent a potential constraint on uptake (particularly for farmers/smaller landowners), including woodland losses (from fire, disease, windthrow etc.), the risk of decline in carbon

prices in the voluntary carbon market and the effects of carbon schemes on underlying land values due to long term liabilities. Despite the rise in importance of carbon as a market driver, **timber markets and the investment potential of timber (as a sustainable low carbon building material etc.), appears to be of greater importance than carbon in relation to most land acquisitions for forestry and plantable land across Scotland.**

Importantly, the increasing **acquisition of estates (and other areas of land) by owners and investors with environmental agendas, has increased the potential for large-scale habitat and ecosystem restoration**, particularly in areas with large areas of plantable land and/or degraded peatlands. **This has the potential to deliver a wide range of wider public benefits** and the emergence of carbon markets (e.g. the Woodland Carbon Code and Peatland Code) and the related potential for facilitating private investment in restoring ecosystems (in combination with public funding for environmental management), represents a key component of this shift in the wider objectives of new and prospective private landowners in Scotland. Nevertheless, it is **currently unclear what the wider outcomes of increasing corporate ownership of estates (and rising wider land values) are for rural communities and economies** and how this may vary based on the resulting land use outcomes (e.g. estate or farm based rewilding versus investment oriented mixed forestry). For example, **large scale land use transitions are likely to have implications for local community members (and their families) dependent on the land use status-quo**, including those employed in established traditional sectors, such as sheep farming on hill farms and gamekeeping on sporting estates.

An increased wider emphasis on afforestation and ecosystem restoration may also have implications for food security, as evidenced by the increasing interest by forestry investors in lower ground pasture land. This suggests an ongoing, market-led 're-balancing' of land use across Scotland, which offers potential wider benefits, but also **uncertainties, due to the potential for some new investment-oriented landowners to reinforce existing barriers to accessing land and/or excluding communities from land-use decision making processes**. In addition, the increasing acquisition of natural capital assets by corporates and private investors may result in further **concentration of the benefits flows (and related public funding) associated with the provision of ecosystem services**.

Nevertheless, as highlighted in this report (see Section 4.6.2), due to underlying ESG commitments, **corporate ownership of estates may also offer opportunities for novel owner-community and owner-business partnerships and joint ventures and the development of initiatives to facilitate benefits sharing from natural capital investment over the longer term (e.g. natural capital community wealth funds)**. Importantly, **transparent estate management plans, developed in consultation with local communities and businesses (and incorporating indicators for assessing outcomes over the longer term), represent one potential mechanism for facilitating community input to decision-making processes**. Additionally, the wider shifts in both land market activity and owner objectives evidenced here, highlight the **importance of developing effective and well-aligned market-based and public-support mechanisms to counteract existing structural barriers (e.g. landownership concentration) and avoid inherent policy conflicts** and ensure land use transitions are viable across a wide range of land managers and holding types and sizes.

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7 Appendices

Appendix 1 Improving Reporting of Land Market Transactions - Agent Interview Guide

Before interview

*When agreed by email, ask participant to complete and return consent form before interview
Introductions and preamble and consent - confirm recording permission verbally.*

1. Role and experience of interviewee

- What is the current role of your organisation in relation to rural land markets?
- Please outline your level of experience of rural land markets.

2. Current trends in the rural land market

- i) How would you describe the frequency and scale of current rural land market activity relative to recent trends? *(size of holdings, number of sales etc.)*
- ii) What is the current balance of land supply versus demand and how has the pandemic affected this *(any other recent major market shifts)?*
- iii) Are you aware of any regional variation in terms of rural land supply/demand?
- iv) What proportion of land sales you are involved with tend to be off-market transactions (and has this changed over time) and what drives this? *(market effects of this?)*
- v) Do you record/retain your own data on rural land market activity? *(how/format)*

3. Current primary motivations/drivers for selling rural land

- i) What are the main motivations for owners when selling land? *(Upsizing, death, debt/bankruptcy, divorce, family reasons, profit taking, lifestyle change, relocation, retiring, downsizing, unknown, CGT rollover, IHT benefits, neighbouring land, long-term development, land use change restructuring)*
- ii) Have these motivations changed over time; what is the influence of current land values and market opportunities (e.g. forest land values) as a driver of sales/supply?
- iii) What types of landholdings are most frequently being marketed? *(tenancies, productive farmland, hill ground, whole farms, estates etc.)*

4. Current primary motivations/drivers for purchasing rural land

- i) What are the main motivations for purchasers when buying land and have these changed over time? *(see selling reasons above and – relocation/farm expansion/new farming entrant/sitting tenant/residential/sporting interests; natural capital and carbon)*
- ii) What are the main current buyer types? *(farmers, new-entrants, investors, lifestyle owners, rollover buyers, communities, green investors – individuals/corporations)*
- iii) What type of holdings are most popular currently? *(residential/amenity farms/mixed estates/commercial farms, upland or lowland properties etc.)*
- iv) To what extent are new acquisitions/changes in ownership resulting in a substantive change in land use (e.g. farm-forestry conversion etc.)
- v) How are wider issues (climate change, the pandemic, Brexit) affecting demand for land?

5. Determinants of rural land values

- i) What current factors are of greatest importance in influencing rural land values and how have these changed in recent years? (*Size, location, topography, amenity value, access, sporting, natural capital values, asset base/income potential, land use and land use potential, demand/supply function, running costs, development controls*)
- ii) What is the current influence of sporting, agricultural and forestry potential on land values and how has this changed in recent years?
- iii) What influence do land-based financial supports have on land values currently?
- iv) How would you characterise the impacts of the pandemic and Brexit on rural land values?
- v) How are land values currently influencing sale or retention of land in rural Scotland?

6. The influence of natural capital on rural land markets

- i) How important is natural capital value currently as an influence on rural land markets?
- ii) What proportion of new owners have a natural capital related motivation and can you expand on this in terms of effects on sales/acquisitions? (*scale, type of activity etc.*)
- iii) What specific areas of natural capital investment are new owners interested in and how is this being taken forward? (*peatland restoration, native woodlands etc*)
- iv) Are you aware of any risks/trade-offs relating to an increasing emphasis on natural capital in land markets and land acquisitions? (*e.g. emergent markets, low supply, community/public responses to natural capital purchases etc.*)
- v) Have you been involved with/aware of any public-private/hybrid investment models for natural capital? (*e.g. agreements with existing tenants, community involvement, collaborative schemes, carbon options etc.*)

7. Future market trends and final thoughts

- i) How do you envision rural land markets and land values evolving over the next 5-10 years in Scotland? (*land values, supply and demand trends, role of NC markets*)
- ii) Do you have any further comments in relation to the longer term effects on land markets of: a) *land reform and land market reforms*; b) *changing land-based financial support*; c) *climate change and net zero commitments*.
- iii) Are there any other threats/challenges or potential opportunities for your sector and land markets generally and land-based investment generally you would like to highlight?
- iv) Do you have any other comments on any of the aspects discussed previously?

Appendix 2 Participant Consent Form (Agent interviews)

Title of Project:	Improving Reporting of Land Market Transactions
Principle Investigator:	Rob Mc Morran (Researcher, Rural Policy Centre, Scotland's Rural College)

Please Initial Y/N

I confirm that I have read and understand the information sheet dated ___/___/___ for the above study. I have had the opportunity to ask questions and (if asked) these have been answered fully and explicitly.	
I understand that my participation is voluntary, and I am free to withdraw at any time, without providing any reason and without my legal rights being affected.	
I understand that confidentiality will be maintained at all times and it will not be possible to identify me from any publications/outputs.	
I agree to take part in the above study and participate in an interview with a researcher from SRUC on land markets and land values	
I agree to participating in the data sharing component of this study and providing some data (partial or otherwise) on land sales/purchases. This data may be used in summary, anonymised format in future rural land market reviews for comparative purposes. Any raw data on land sales provided to SRUC will not be shared with the Scottish Land Commission or our project collaborators (Savills and Strutt and Parker). Draft summary findings and analysis will be shared (in anonymised and summary format only) with the wider project team and included in the project final outputs.	
I agree to being contacted at a later date in relation to this study (e.g. in relation to receiving outputs and/or in relation to future work).	
I agree for my interview to be recorded and transcribed.	
I acknowledge that I have read and understood the privacy notice below.	

Name of Participant (please print)

Signature

Date

PI/Researcher Name (please print)

Signature

Date

Privacy Notice

SRUC will use your input/interview responses for the purposes of the research undertaken in this project **“Improving Reporting of Land Market Transactions”**. Our legal basis for processing your data is that it is necessary for the performance of a task carried out in the public interest in relation to research funded by the Scottish Land Commission. In the above research study, we may process your name and contact details, your organisation/affiliation and any other information you choose to share with us via an interview and/or other communications.

We are the Data Controller over your personal data. We will not share your personal data, unless required by law, and shall only retain it for as long as is necessary to fulfil the research undertaken on the project and deliver project outcomes. I understand I am under no obligation to share any data with the project research team and that any data shared with the research team will only be used in anonymised and summary format in any final project outputs.

Your personal data will be stored on secure servers in the UK and will not be transferred outside of the EEA. You have rights in relation to your personal data. Please see our Privacy Notice at:

<https://www.sruc.ac.uk/connect/about-sruc/policies-compliance/compliance/privacy-policy-gdpr-cookies/#GDPR>

For further information contact our Data Protection Officer on dpo@sruc.ac.uk or by telephone at 0131 535 4432.

Rob Mc Morran

Research Fellow (Land Use) | Rural Policy Centre | SRUC |
Room 312 | Peter Wilson Building | King's Buildings | West Mains Road | Edinburgh |
EH93JG | t: + 44(0)131 535 4268 | m: +44(0)7411 850159 | Email:
rob.mcmorran@sruc.ac.uk

Appendix 3 Project information sheet (for research participants)

Improving Reporting of Land Market Transactions

Participant Information Sheet - December 2021

Background

Several indexes and market reports¹⁵ offer insights into rural land market activity in Scotland. Despite this, uncertainty remains around the total volume of land sales (including off-market transactions) and evidence on why people choose to buy and sell land is relatively limited. In addition, natural capital represents an important emerging influence on land markets, although the extent to which natural capital investment drives acquisitions and sales over other factors is currently unclear. While many of the impacts of natural capital investment may be beneficial for delivering land use change that meets climate and biodiversity targets, the current lack of understanding of new owner motivations creates challenges for assessing how landownership change should be considered in relation to emerging models of natural capital finance and governance. Future policy development relating to land markets therefore requires an enhanced evidence base, to improve understanding of how natural capital is influencing markets and to ensure the effects of any measures taken to increase transparency or regulate markets can be assessed longer term. This research will combine reviewing existing evidence, analysis of Registers of Scotland data and interviews and data collation with land agents from across Scotland.

The aim of this work is to create a summary of current rural land market activity, with a particular focus on understanding buyer/seller motivations and the role natural capital is having in the market. The project outputs will also propose a replicable methodology for gathering data on rural land market activity in Scotland in the future. The findings will be used to inform policy, particularly in relation to how natural capital investment can be harnessed in a way that encourages responsible investment and creates public value, as this new sector grows. The research is being carried out by Scotland's Rural College in collaboration with Strutt and Parker and Savills, with the support of the Royal Institution of Chartered Surveyors.

What am I being asked to do?

We would like to ask you to take part in an interview about land market trends and drivers. This should last around 40 minutes and can be conducted by video conference or phone. Your contributions will be stored securely, confidentiality will be maintained throughout, and it will not be possible to identify you from any related outputs.

¹⁵ See for example the Strutt and Parker [Estates Sales Market Review and Scottish Farmland Market Review](#), the Knight Frank [Scottish Farmland Index](#) and the UK [Forest Market Report 2020](#)

What will I be asked about/asked to provide?

The interview will include discussion on: i) current trends in the rural land market; ii) primary motivations/drivers for selling rural land; iii) motivations/drivers for purchasing rural land; iv) key factors influencing rural land values; v) the role and influence of natural capital values and markets on rural land markets.

Subject completely to your agreement, you will also be asked to provide some information relating to land sales and purchases (over 100 acres) which your agency has overseen in 2020 and 2021. This will include information on: i) number of transactions; ii) size (ha); iii) location (region); iv) sold price; v) property type/existing land uses and potential future land use change; vi) perceived buyer and seller primary motivations for each sale/acquisition. Any raw data on land sales provided by land agencies to SRUC will not be shared with the Scottish Land Commission or our project collaborators (Savills and Strutt and Parker). Draft summary findings and analysis will be shared (in anonymised and summary analysis format only) with the wider project team and included in the project final outputs.

What will happen to the findings from this research?

The majority of the work will be carried out from December 2021 to end March 2022, with additional outputs developed during April-June 2022. Summary findings will be presented (in a completely anonymised format) in a rural land market analysis report for publication by the Scottish Land Commission in April-May of 2022. In addition, the potential for publishing a final anonymised and simplified dataset of land sales over 100 acres (based on Registers of Scotland data) will be explored, subject to satisfying data sharing agreements. A rural land market assessment method report will also be published in June 2022, setting out a proposed approach for undertaking longer-term regular assessment of the rural land market.

Who is funding the research?

This research is being funded by the Scottish Land Commission. You can find out more about the work of the Scottish Land Commission here: <https://www.landcommission.gov.scot/>

Who can I contact with questions or concerns?

Dr Rob Mc Morran, Research Fellow (Land Use), Scotland's Rural College

Rob.mcmorran@sruc.ac.uk t: + 44(0)131 535 4268 | m: +44(0)7411 850159

Appendix 4 Interviewees List

Davidson and Robertson Rural (DRR) - George Hipwell (Head of Rural and Agency)

Rettie - Chris Hall (Director of rural and professional services, Rural and Country Homes)

Tilhill - Peter Chappell (Head of Investment and Property)

Peter Graham and Associates - Peter Graham (Director)

Goldcrest Land and Forestry - Jon Lambert (Partner)

Edwin Thomson - Neal Thompson (Senior Partner, Property Investment Rural Property and Estate Management)

Landfor Chartered Land and Forestry Agency - Patrick Porteous (Registered consultant, established Landfor)

Aberdeen and Northern - James Presly (Director)

Strutt and Parker - Robert McCulloch (Head of Estate and Farm Agency)

Bidwells - Andy Turnbull (Partner and head of natural capital and sustainable investment) and Matthew Hay (Associate, natural capital and sustainable investment)

John Clegg - Harry Graham (Forestry Sales Agent)

Forestry and Land Scotland agents - Leona Wilkie (Head of acquisitions and disposals)

Butler Sherborn - Richard Greasby (Partner - Head of Rural)

FBRseed (Land Agents and Chartered Surveyors) - Sarah Mason, Senior Surveyor

Savills - William Hawes, Head of Natural Capital and Estate Management in Scotland

CKD Galbraith - Bob Cherry (Rural, farm and estate sales)

C and D rural - Louisa McElroy, land agent and valuer

Knight Frank – Tom Stewart Moore (Partner, Rural Agency)