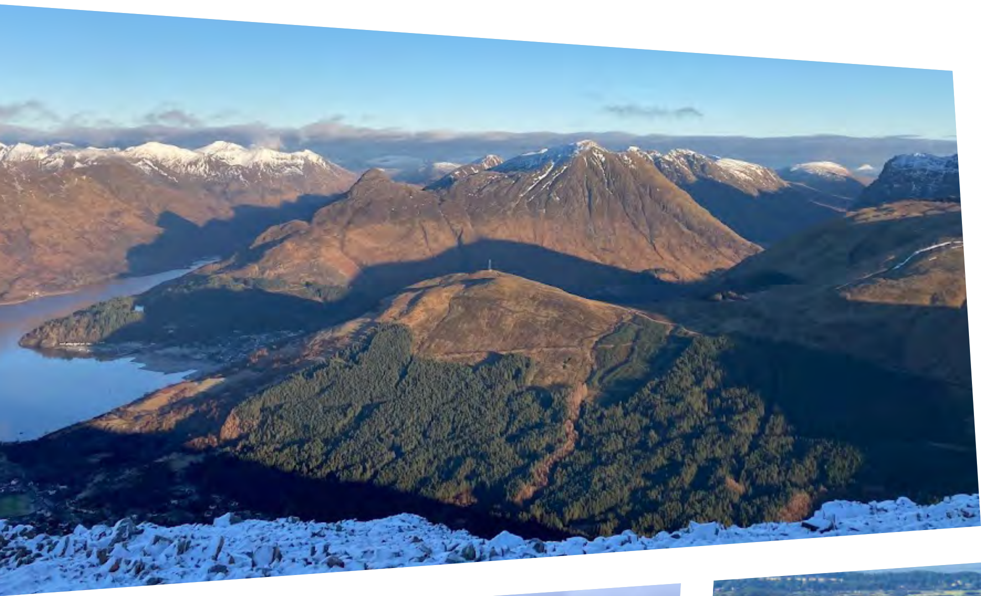
SCOTTISH LAND COMMISSION
COIMISEAN FEARAINN NA H-ALBA

Rural Land Market Insights Report

June 2024



Rural Land Market Insights Report

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Contents

Executive Summary

This is the third report in the Rural Land Market Insights Report series. It uses qualitative insights from a range of land agents operating across Scotland to report on recent and emerging trends occurring in all sectors of the land market.

This year 17 agents were interviewed between November 2023 – February 2024, and were asked how the market performed in the calendar year of 2023.

Overall impressions of the market

In 2023, the land market witnessed a slowdown compared to previous years and was described as "sluggish", with sentiments softening and transactions taking longer to close.

Economic factors contributed to weakened market sentiment, including high interest rates which made borrowing money harder, and the cost-of-living crisis which drove certain commodities upwards (making it less profitable to manage a land-based business). Institutional investors started turning away from land due to lower yields, opting for alternative investments like government bonds or gold.

Government policies, including those related to land management and short-term lets, introduced uncertainty and impacted market dynamics.

Supply remained restricted in 2023, while demand slightly weakened, leading to a cautious market environment. Uncertainty surrounding agricultural subsidies and the carbon market influenced both supply and demand dynamics.

Land prices remained consistent or slightly increased despite the slower market, with the exception of marginal hill land which came back down from previous highs.

Off-market transactions persisted but decreased slightly with estates experiencing a reduction in off-market sales. Prime arable land saw higher off-market activity than previously, particularly between neighbours, driven by factors like rollover funds. A semi-off-market trend emerged where estates were marketed to select buyers privately.

Farmland

Mixed dynamics were observed in the farmland market, with some sectors experiencing growth while others faced challenges. Farmers seeking economies of scale drove demand for land expansion on the back of two quite profitable years. Rollover funds played a significant role in driving market activity in 2023, particularly from those who sold to forestry or natural capital in 2020-21.

Limited supply and sustained demand maintained land prices, with the highest quality arable land remaining highly desirable.

Mixed farming units attracted newfound interest due to their blend of food production and nature restoration potential, which may prove beneficial when considering the new agricultural support scheme.

Limited supply characterised the farmland market in 2023, with motivations for selling including retirement planning, inheritance distribution, and debt consolidation. In some cases, economic factors influenced larger farmers to offload small parcels of land to reduce financial strain.

Forestry

The forestry sector saw a significant slowdown compared to previous years. A drop in the number of properties offered for sale and a decrease in sold properties were noted.

Two exceptionally large plots remained on the market due to timing issues, but also hinted at an overall slowing down of the forestry market.

Factors such as rising costs, regulatory uncertainties, and lower timber prices affected the market. Confidence decreased due to unclear policy direction and lengthy approval processes. A comparison to the housing development market was drawn, suggesting a potential emerging business model of purchasing land, obtaining planting permission, and selling it at a premium, due to the issues around attaining permissions.

Two distinct buyer groups continued to emerge: commercial forestry investors and natural capital investors. Commercial forestry investors focused on long-term timber price outlook and domestic timber scarcity, with long-term predictable cash flows remaining appealing. Natural capital investors were interested in different land, which had the potential for native tree planting and peatland restoration.

Land suitable for natural capital schemes

Purchasing land for natural capital purposes slowed considerably compared to previous years. Carbon schemes were primarily discussed, with more issues surrounding woodland carbon compared to peatland carbon.

Most applications for carbon schemes were from existing landowners and farmers rather than new landowners who have recently acquired land for this purpose. Companies were instead leaning towards forming partnerships with landowners instead of purchasing land themselves. Alternative models, such as leasing land or funding projects for future credits, gained popularity.

The introduction of biodiversity credits was anticipated, raising questions about their stacking with carbon credits and potential effects on the land market.

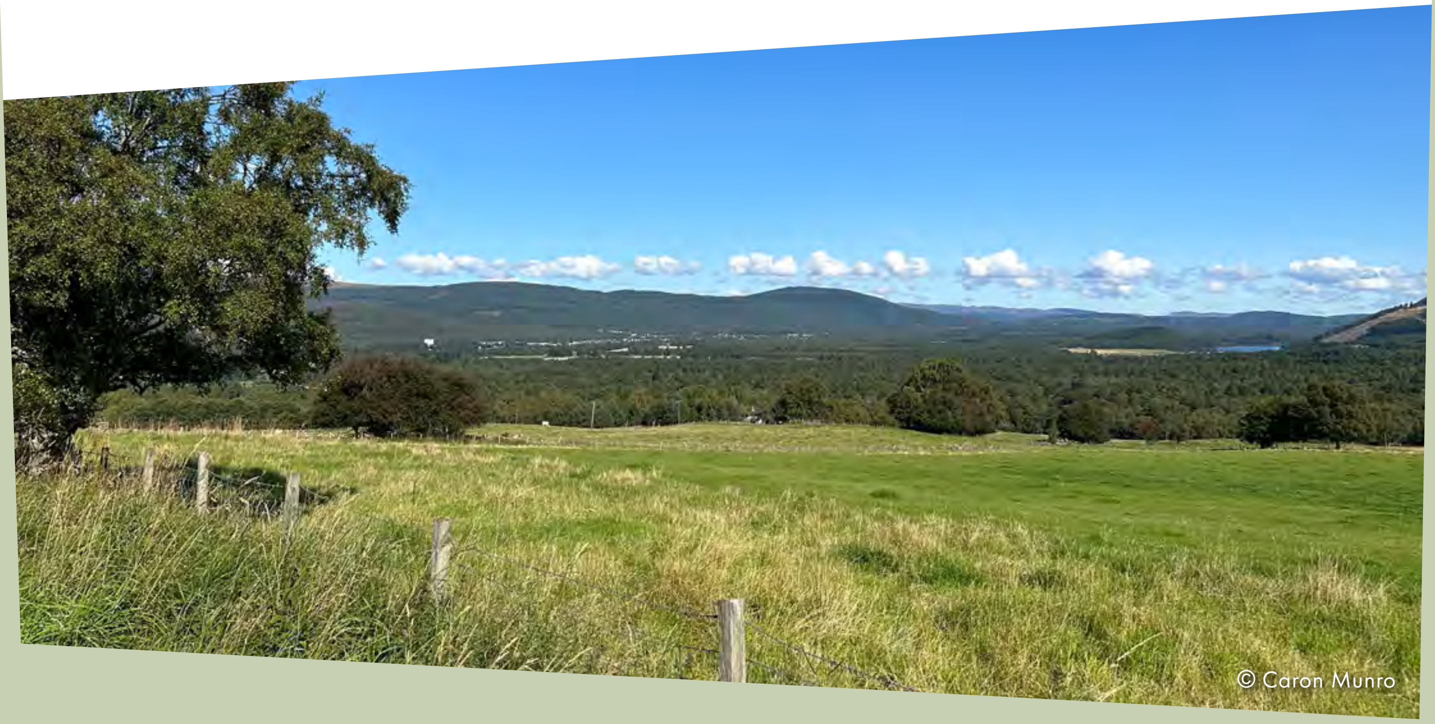
Estates

Estates attracted a range of buyers with different motivations. A distinction was made between 'traditional' buyers (typically self-made individuals) whose motivations were around amenity use and economic and social development, and institutional investors driven by natural capital motivations. Natural capital-driven buyers typically out-competed traditional buyers in terms of purchasing power. Institutional investors favoured estates with fewer enterprises and residential properties attached.

Other buyers: renewable energy developers and house builders

Renewable energy developers, particularly windfarm developers, showed slightly increased activity compared to previous years. However, the cost of these schemes will be affected by the introduction of biodiversity credits in future years.

House builders slowed their buying due to macro-economic factors and regulatory changes.



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1 Background

1.1 Introduction

This research was commissioned by the Scottish Land Commission ('the Commission') to provide continued insights into the Scottish rural land market. This is the third report in the 'Rural Land Market Insights' series, following previous reporting by McMorran *et al* (**2022**)[1] covering the 2021 calendar year and Merrell *et al* (**2023**)[2] covering the 2022 calendar year. The aim of this series is to report on and understand activity in the Scottish land market in each year (with this report focusing on Jan – Dec 2023). This is achieved by seeking the expert opinions of land agents operating across Scotland, as these are the people closest to the market with deep knowledge of the sector.

Interviews were conducted with 17 agents and/or valuers, some of whom specialised in different sectors of the land market (specialists in farmland, forestry, estates, natural capital and residential). Specifically, the interviews were concerned with the agents' perceptions of: (i) current motivators for buying and selling land (including farms, forests, and estates); (ii) performance of the market (including discussion around values, on-/off-market transactions and supply/demand); (iii) the impact of natural capital payments, agricultural support, and grants on land prices, and (iv) predictions of future trends. The main findings of previous reports were also compared against the data for 2023 land market activity.

The Commission recognises the need to regularly monitor activity within Scotland's rural land market to maintain an accurate picture of landowner, buyer, and seller motivations. This study provides qualitative context to the rural land price and sales data analysis undertaken by the Commission (analysis of 2020-2022 available **here**)[3]. Comparing results from this study with the previous years helps to begin to form a long-term narrative of rural land market activity in Scotland, making it easier to identify emerging trends that can inform policy decisions (discussed in **Section 1.2**). Key insights from industry updates are then presented (**Section 2**). The methodology is presented in **Section 3**, including how analysis was conducted. Following this, the main thematic analysis derived from the interviews with land agents is presented in the findings section (**Section 4**). **Section 5** draws conclusions and makes comments on emerging trends in the land market.

The rural land market in Scotland is relatively small, with very little land transacted every year. For example, the Commission's analysis of transactions between 2020-2022[4], showed only 740 land transactions occurred over this 3-year period, with the overwhelming majority (up to 95% in one year) being under 500 hectares.

1 McMorran, R., Glendinning, J. and Glass, J. (2022). *Rural Land Market Insights Report.* [online] *Scottish Land Commission.* Scottish Land Commission. Available at: https://www.landcommission.gov.scot/downloads/62543b9498bb1_Rural%20Land%20Market%20Insights%20Report%20April%202022.pdf [Accessed 24 Apr. 2024].

2 Merrell, I., Plate, L., Glendinning, J. and Thomson, S. (2023). *Rural Land Market Insights Report 2023*. [online] *Scottish Land Commission.* Available at: https://www.landcommission.gov.scot/downloads/645cda7a2ba61_Rural%20Land%20Markets%20Insights%202023.pdf [Accessed 24 Apr. 2024].

3 Scottish Land Commission (2023). Rural Land Market Report – Analysis of land sales data 2020-2022. [online] *Scottish Land Commission.* Available at: https://www.landcommission.gov.scot/downloads/65644f2d6ed20_Rural%20Land%20Market%20Report.pdf [Accessed 22 Apr. 2024].

4 ibid

1.2 Previous Rural Land Markets Insights Report findings

The first report in this series was published by the Commission in April 2022 (referred to throughout this current report as **McMorran et al, 2022**)[5] and covered the calendar year of 2021. This report documented a unique period of the Scottish land market. It was a time when the COVID-19 outbreak had caused a newfound out-migration towards rural areas, forcing the supply of rural houses to fall and prices to rise. It also documented the sudden upsurge of attention in Scottish land for natural capital purposes – i.e. changing land use to sequester carbon and generate carbon credits. The overall message from the report was that demand drastically outpaced supply and prices rose considerably, particularly on marginal land that once held little economic value but was considered ideal for natural capital activities and afforestation. This included interest in Scottish estates, due to their scale and ability to achieve significant carbon capture. Levels of off-market activity in the estate sector reached record highs and values also followed.

Farmland values were underpinned by constrained supply, favourable capital taxation, low interest rates and a perception of strong long-term investment performance. Non-farming investors were observed to be playing an increasing role in the market with forestry buyers increasingly outbidding farmers for land considered suitable for afforestation. Demand for higher quality arable land continued to be driven by agricultural buyers. Increased demand for smaller holdings from lifestyle buyers because of the pandemic was noted. Local farm businesses continued to be the key purchasers of higher quality farms, while forestry buyers were increasingly the key purchasers of lower-grade agricultural land.

While woodland carbon was noted to be an influence, commercial forestry was thought to be a more significant driver for acquisitions of plantable land, driven by; (i) global timber shortages; (ii) global policy drivers toward net zero; and (iii) grant availability alongside long-term afforestation drivers. Forestry buyers were increasingly willing and able to outbid farm purchasers for land considered suitable for afforestation, often without firstly attaining planting permission.

Following this initial report, Merrell *et al* (**2023**)[6] carried forward the analysis into the 2022 market. The main tone of this report was that caution had begun to enter the market; land values had begun to stagnate, time taken to close sales had increased, off-market activity had begun to slow down, and supply was starting to steadily increase. This behaviour arose for multiple reasons, but primarily due to external socio-economic conditions, including the war in Ukraine, the consequential cost-of-living crisis, higher commodity prices (including farming inputs) higher interest rates and rising inflation. The only commodity that appeared to drive increased demand in Scottish land was high timber prices that spurred continued interest from the commercial forestry sector and agents reported that these companies were increasingly interested in moving “down the hill” to find more fertile and flatter ground to plant. In times of high inflation land is seen as a ‘safe haven’ asset, with some larger corporate and institutional buyers acquiring large Scottish estates as a means of hedging against inflation.

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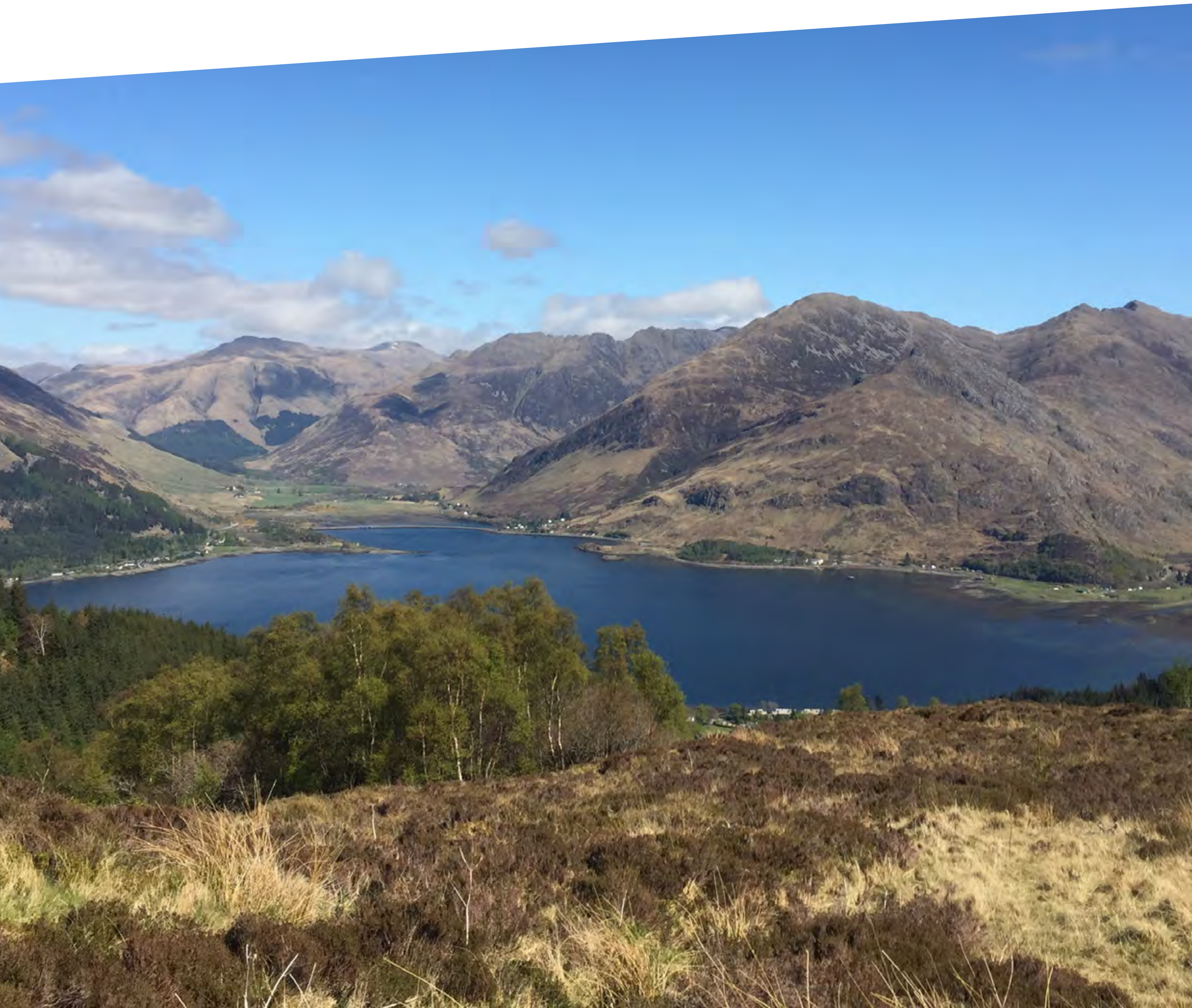
5 McMorran, R., Glendinning, J. and Glass, J. (2022). *Rural Land Market Insights Report.* [online] *Scottish Land Commission.* Scottish Land Commission. Available at: https://www.landcommission.gov.scot/downloads/62543b9498bb1_Rural%20Land%20Market%20Insights%20Report%20April%202022.pdf [Accessed 24 Apr. 2024].

6 Merrell, I., Plate, L., Glendinning, J. and Thomson, S. (2023). *Rural Land Market Insights Report 2023.* [online] *Scottish Land Commission.* Available at: https://www.landcommission.gov.scot/downloads/645cda7a2ba61_Rural%20Land%20Markets%20Insights%202023.pdf [Accessed 24 Apr. 2024].

Overall, there was still demand for high quality arable land and (although to a lesser degree) marginal hill ground, but these external factors were affecting farms of medium quality, the residential sector and smaller (amenity) estates.

Another emerging trend (particularly in the forestry and natural capital sectors) was that changes to the Woodland Carbon Code's additionality rules had slowed interest in afforestation as a means of sequestering carbon, and rising inflation had caused the Forestry Grant Scheme (FGS) to become less economically attractive (rising costs in fencing and labour outweighed the level of the grant). Attaining planting permission for bare ground was also seen as a lengthy process that was slowing down demand.

It is within this context that this year's report continues to investigate. As this is the third report in the series, we can begin to map longer-term trends which will be discussed in the conclusion (**Section 5**).



2 Industry reports

Each year multiple land agents publish their own analysis of the land markets. These are an important source of information and analysis of these have been utilised in the Commission's **Rural Land Market Report**[7], Glendinning *et al* (**2023**)[8] and in previous reports in this series (**McMorran et al, 2022**[9], **Merrell et al, 2023**[10]). To avoid overlap with other reports, the qualitative messaging of a range of available industry reports (covering the calendar year of 2023) were examined, as opposed to any quantitative findings (amount of land sold, average prices etc.) which the Rural Land Market Data Report will continue to monitor.

Strutt and Parker's **Scottish Farmland Market Review 2024**[11] reported that a "steep rise in interest rates ... impacted not just the agricultural sector but also society as a whole" and was considered the main factor influencing the market. Another external factor was "the lack of clarity on the future of farming support [which] continues to cause [farmers] problems". As reported elsewhere (**Glendinning et al, 2023**[12] for example), a "notable shift in the farmland market was the reduction in the prices paid for upland farmland suitable for afforestation with investors becoming stricter with their investment criteria". They note that farmers continue to be the main buyer in the farmland market but "agricultural land continues to be perceived as a safe investment, with a number of new investor buyers coming into the market in 2023 keen to buy land for tax, capital growth, amenity, lifestyle and environmental reasons."

Savills, in **The Outlook for Demand and Farmland Values**[13] agree that more institutional investors are looking to purchase Scottish land: "Since 2000 institutional, corporate and charity buyers have typically accounted for between 8-12% of annual purchases. Their activity started increasing in 2020 when it became clear rural land was part of the solution to climate change and there was an urgent need to improve biodiversity. Since completing 17% of transactions in that year, the trend has continued and in 2023 they bought 14% of farms offered for sale". The report goes on to highlight four key drivers of demand in the farmland market. Firstly, the strength of the economy, although it does note that high interest rates are restricting some people who need

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7 Scottish Land Commission (2023). Rural Land Market Report – Analysis of land sales data 2020-2022. [online] Scottish Land Commission. Available at: https://www.landcommission.gov.scot/downloads/65644f2d6ed20_Rural%20Land%20Market%20Report.pdf [Accessed 22 Apr. 2024].

8 Glendinning, J. and Merrell, I. (2023). *Rural Land Values, Sales and Investment Trends.* [online] SRUC. Available at: https://sruc.figshare.com/articles/report/Rural_Land_Values_Sales_and_Investment_Trends_Research_Briefing_/24773286/2 [Accessed 24 Apr. 2024].

9 McMorran, R., Glendinning, J. and Glass, J. (2022). *Rural Land Market Insights Report.* [online] *Scottish Land Commission.* Scottish Land Commission. Available at: https://www.landcommission.gov.scot/downloads/62543b9498bb1_Rural%20Land%20Market%20Insights%20Report%20April%202022.pdf [Accessed 24 Apr. 2024].

10 Merrell, I., Plate, L., Glendinning, J. and Thomson, S. (2023). *Rural Land Market Insights Report 2023.* [online] *Scottish Land Commission.* Available at: https://www.landcommission.gov.scot/downloads/645cda7a2ba61_Rural%20Land%20Markets%20Insights%202023.pdf [Accessed 24 Apr. 2024].

11 Orr, D. (2024). Scottish Farmland Market Review | Winter 2023/24. *Strutt & Parker.* Available at: https://rural.struttandparker.com/article/scottish-farmland-market-review-winter-2023-24/ [Accessed 22 Apr. 2024].

12 Glendinning, J. and Merrell, I. (2023). *Rural Land Values, Sales and Investment Trends.* [online] SRUC. Available at: https://sruc.figshare.com/articles/report/Rural_Land_Values_Sales_and_Investment_Trends_Research_Briefing_/24773286/2 [Accessed 24 Apr. 2024].

13 Teanby, A. and Lawson, A. (2024). The outlook for demand and farmland values. Available at: https://www.savills.co.uk/research_articles/229130/355918-0 [Accessed 22 Apr. 2024].

to borrow to buy land. Secondly, farm expansion and production: "39% of farmers are positive about their future in farming [with] around a fifth said they were planning to expand their business". Thirdly, nature-based solutions are "becoming a mainstream land use rather than a disrupter. Their markets have matured, buyers now have more defined business cases and their land requirements are increasingly geographically and physically specific". Lastly, rollover buyers have been an important aspect in the market, but Savills predict that "a weakening market for development land will mean there are fewer new [rollover] motivated buyers competing to buy farmland". Elsewhere, the **Savills Spotlight: The Farmland Market 2024**[14] reported that both farms and estates are "short of stock" and there is still good demand for "commercial, well-equipped farms". They also note that "competition for planting land dropped over 2023".

Knight Frank's **'Farm Values Hit New Records'**[15] article provides an overview of the market with a similar tone and findings: "A lack of supply and continued strong demand from a wide variety of buyers helped support values, despite high inflation, rising borrowing rates, weak commodity markets and a drop in farm subsidies".

Focusing on the forestry sector, John Clegg and Co, in their **Great Britain Forest Market Review – Interim Q1-Q3 2023**[16] report, suggest that the current economic climate is not affecting forestry investments, but warn falling prices may also negatively affect supply: "Most forestry investors are in it for the long term and are not using debt. Therefore, when values fall they can choose to hold their investment and are under no pressure to sell. This means that the supply of woodlands to the market can significantly reduce when prices fall". They also report that "compared to previous years the number of private deals does seem to be significantly lower".

In **The UK Forest Market Report 2023**[17], Tilhill and Goldcrest report that "forestry has not been immune from challenging economic forces" and that timber prices and restricted supply have affected the market. In their economic analysis they suggest that two large forests have accounted for 70% of the market and without these "we would have been talking about an unprecedented tightening of supply".

14 Teanby, A., Lawson, A., Channing, E. and Rees, D. (2024). Spotlight: The Farmland Market – 2024. Available at: https://www.savills.co.uk/research_articles/229130/355890-0 [Accessed 22 Apr. 2024].

15 Shirley, A. (2024). Farm values hit new record. The market for agricultural land ended 2023 on a high. Available at: https://www.knightfrank.com/research/article/2024-01-22-farm-values-hit-new-record#:~:text=Over%20the%20course%20of%202024,glut%20of%20land%20for%20sale [Accessed 22 Apr. 2024].

16 Strutt & Parker (2023). Commercial forestry transactions shrink, but values holding. Available at: https://rural.struttandparker.com/article/commercial-forestry-transactions-shrink-but-values-holding/ [Accessed 22 Apr. 2024].

17 Tillhill Forestry and Goldcrest Land & Forestry (2023). The UK Forest Market Report. [online] Available at: https://www.tilhill.com/wp-content/uploads/2021/03/The-FMR-2023.pdf [Accessed 22 Apr. 2024].

3 Methodology

A very similar methodology was adopted for this report that was undertaken in the previous year (see **Merrell et al, 2023**)[18]. This was qualitative research which involved interviewing a range of land agents operating across Scotland. The methodology was designed to complement the ongoing quantitative analysis of the Scottish land market by the Commission (available **here**)[19].

In previous years, desk-based analysis of industry reports from the largest agencies in Scotland was conducted, as a means of triangulating findings. This work is now included in the quantitative analysis conducted by the Commission, and the reports were also used as a data source in Glendinning *et al*'s (**2023**)[20] Briefing Paper on 'Rural Land Values, Sales and Investment Trends' on behalf of the Scottish Government. Therefore, to avoid duplication, these reports were not included in the findings of this year's report.

As with the previous report, the strategy for recruiting participants involved contacting previous participants and undertaking internet searches of agents operating across Scotland. It was considered important to continue discussions with returning agents over multiple years – this allowed reflection on previous years with them and to maintain a degree of familiarity with the questions. On the other hand, it is important to gain new insights from agents who have not previously participated. In some circumstances, the same agencies were approached, but different members of staff participated in interviews than in previous years. This provided a good mixture of both new and returning perspectives. The approach also ensured that a mix of large (national-scale) agencies and smaller (regional or local-scale) agencies were approached to account for different perspectives and regional variation.

A total of 17 agents were interviewed, 11 of which were involved previously and 6 who were new (a list of agencies involved is included in the acknowledgements, and a list of anonymised participants can be found in **Appendix 1**). Interviews occurred between December 2023 and February 2024 and were conducted online using Microsoft Teams. The interviews lasted roughly 60 minutes. The semi-structured interviews (see **Appendix 3**) followed key questions but provided flexibility to explore different or unexpected avenues of enquiry as they emerged – these remained largely the same as the previous year, but with slight amendments.

For the analysis, interview transcripts were anonymised and analysed thematically. A NVivo[21] coding framework (see **Appendix 2**) was developed to enhance the qualitative analysis. Some codes were set *a priori* whilst others emerged during the data analysis. This enabled results to be analysed thematically (mainly by land sector, but also themes such as 'future trends', 'natural capital' or 'types of buyers') all of which have sections dedicated to them in the findings. Themes were also cross-analysed using 'matrix coding queries' which helped to identify relationships and linkages between themes.

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18 Merrell, I., Pate, L., Glendinning, J. and Thomson S. (2023) Rural Land Market Insights Report 2023. A report commissioned by the Scottish Land Commission.

19 Scottish Land Commission (2023). Rural Land Market Report - Analysis of land sales data 2020-2022. [online] Scottish Land Commission. Available at: https://www.landcommission.gov.scot/downloads/65644f2d6ed20_Rural%20Land%20Market%20Report.pdf [Accessed 22 Apr. 2024].

20 Glendinning, J. and Merrell, I. (2023). *Rural Land Values, Sales and Investment Trends*. [online] SRUC. Available at: https://sruc.figshare.com/articles/report/Rural_Land_Values_Sales_and_Investment_Trends_Research_Briefing_/24773286/2 [Accessed 24 Apr. 2024].

21 A qualitative data analysis software package (https://www.support.qsrinternational.com)

4 Findings

4.1 Overall impressions of the market compared to previous years

Each year the land agents are asked what their broad opinion of how the land market as a whole has performed, before delving into different sectors in detail. The headline finding for the calendar year of 2023, was that the market has been "slower" (P5) than previous years and "heat just came out of it" (P7). Especially compared to previous years, market "sentiment has softened" (P11):

> "You know in COVID you were basically told you can't look at property unless you're a cash buyer. And we don't have that luxury anymore. Definitely not." (P12)

One agent described the market as "sluggish" (P10) in that properties are taking longer to negotiate and sell. Multiple agents reported that some properties "haven't [sold], and are still sticking" (P12):

> "Some transactions have taken longer than previously to conclude, or some properties have ... been withdrawn or are currently for sale having been so for some time" (P11)

This is due to uncertainty in the market and weaker sentiment in buyers, summarised as:

> "It seems to take a long time to get anything completed as well. There seems to be a sort of modern risk aversion to anything." (P10)

> "There is this caution in the market, much more selective. Legal transactions have generally taken longer. And purchasers have been keener to sort out any little title issues that need sorting, rather than as they were in [2022], saying OK, let's just get it bought." (P16)

This year, economic factors were most commonly cited as the main dynamic affecting market sentiment, particularly higher interest rates that were weakening the ability to borrow money. More than one agent pinned this on the failed mini budget of the Truss Government which "spooked" (P13) the market. From the multiple cases of agents reporting macro-economic factors as an issue, this example is particularly pertinent:

> "Earlier this year we're selling [some farmland] and the neighbour had agreed to buy it ... he wanted to borrow the money because he wanted to use the cash reserves he had for other things, went to the bank and the bank said yeah happy to lend you the money. But you know, he said I want to do capital [and] interest. ... So the capital and interest worked out at [a large amount] and he said "there's no way I can service that repayment to have [extra ground], even with the economies of scale it might generate". So he pulled out of the transaction." (P13)

The cost-of-living crisis is having a continued effect on the market. Firstly, because it is affecting key input prices, especially agricultural inputs which are affecting farm profitability and energy prices which are deterring people from upscaling in the residential market. All of the forestry agents expressed how the crisis was affecting the demand for timber (discussed in more depth below) which was negatively affecting confidence in forestry investment in the short-term:

> **"And you know, [the] timber price [has] been impacted clearly at the moment because the cost of living crisis, inflation, interest rates, people are not spending on home improvements which is one of the main markets for timber in the UK." (P9)**

High commodity prices are also affecting the housebuilding market, which is discussed further in **Section 4.8**.

Due to high interest rates and high commodity prices affecting the overall profitability of land, institutional investors are now starting to see land as a lower yielding investment where the "return on your investment is very marginal" (P2). Other asset classes (like government bonds or gold for example) are becoming more appealing to this group:

> **"I suspect they are looking at alternative investments. I think land perhaps is probably less attractive in terms of the returns that you can make. I think there are number of fundamentals associated with owning land that never go away, irrespective what the values are doing. But if your primary motivation is maximising yield, then I think that's probably why people have looked away and gone for other things." (P5)**

A range of other external factors were also cited as affecting confidence in the market. Some of these were specific to certain sectors of the market, and these will be discussed in the relevant sections. However, some factors were broader and affected either all or multiple sectors. Firstly, a myriad of different Scottish Government policies concerned with land (e.g. land management, achieving net zero, natural capital payments, nature conservation and land reform) has created a confusing and uncertain landscape which affects the decision to buy or sell land, or how to manage it when owned:

> **"The Scottish Government has so many different policies, on land management and land reform and regional land use plans and land use frameworks and agricultural changes. ... And yes, I think there needs to be a lot more clarity." (P8)**

One new set of policies the Government introduced last year was legislation tightening the rules and costs of both long-term and short-term lets, with energy efficiency rules added and licenses required for short-term lets. These changes have negatively affected the market this year, particularly for estates with large residential portfolios attached to them and farms who have (or are looking to) diversify into tourism:

> **"There is a little bit less demand for estates that have a big residential portfolio. [There is] increasing regulation, legislation around the operation of residential properties ... All these kind of things just make it a little bit more onerous to own residential property than it used to be." (P10)**

This was also noted by one agent when discussing larger commercial farmers who are looking to extend their holdings, who also don't want to deal with new legislation around renting:

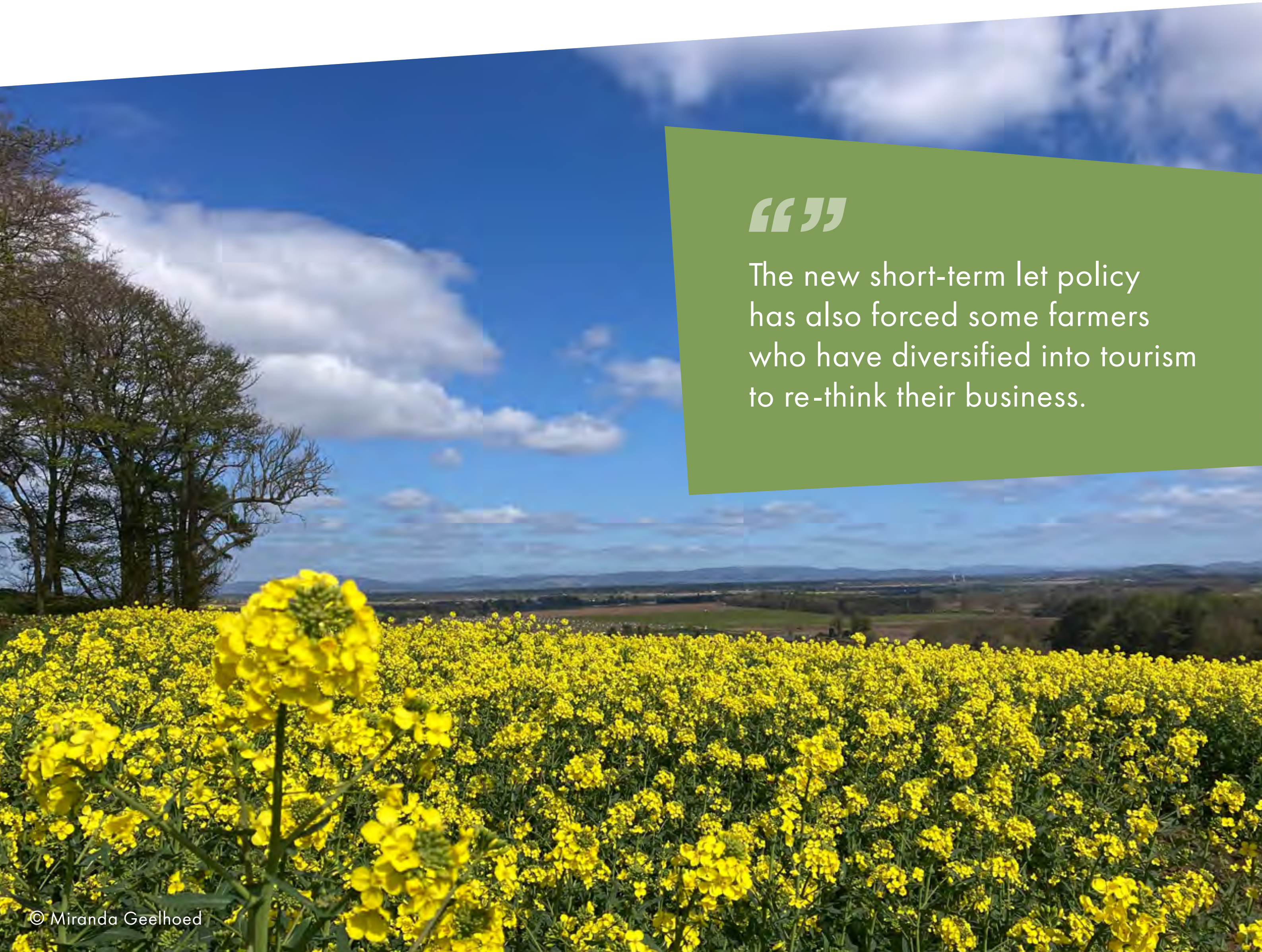
> "If they buy a farm that's got two or three other houses, they're the first things they'll sell or try to sell. ... But that's, partly because ... letting houses is now harder and licensing, you know, being registered landlords. I think some farmers, they don't see themselves as a property rental business and they're just inconveniences to them." (P6)

The new short-term let policy has also forced some farmers who have diversified into tourism to re-think their business. There is a suggestion that landowners are losing confidence in Government legislation that seems to be continually changing:

> "I know from some of the properties we manage, we've given up the holiday cottage business. Just entirely. Because the owner's attitude was ... "well, we've got to jump through these hoops this year. What's going to happen in two years' time"." (P6)

Another factor creating a degree of sluggishness in the market, particularly the time it takes to close a deal, was to do with greater due diligence, ensuring things like bird surveys or archaeological surveys were produced prior to closing:

> "We're beginning to see offers that are subject to or conditional on a satisfactory bird survey. ... So that builds into the timeline because that could be 6-month process." (P7)



"" The new short-term let policy has also forced some farmers who have diversified into tourism to re-think their business.

4.2 Supply and demand

The relationship between supply and demand is a key dynamic in the market as it is the major driver of price. This year, the overall message is that the supply side is still restricted (for a multitude of reasons which are explored through each of the following sections) and demand has slightly weakened. Both sides of this dynamic are expressing caution and hesitancy in these times of uncertainty.

The market is still clearly demand driven, although there was noticeably less supply and demand in 2023 than preceding years, and those who are active in the market are acting "far more selectively" (P16). The factors that are affecting supply and demand appear to be more sector-specific than in previous reporting years, therefore much of this discussion is held in the sections relating to each of these sectors.

There are however two main factors that are worth noting overall which have affected both supply and demand. Firstly, the continued uncertainty around agricultural subsidies is making farmers hold off from either selling or buying before they know the full extent of what the new subsidy scheme will look like. Secondly, people are waiting for the carbon market to mature so that accurate economic forecasting can inform a decision as to whether buying a piece of land is a viable business model. This is affecting the demand side more so than the supply side, but it may also cause a further tightening of supply as landowners are more willing to enter a carbon scheme themselves rather than sell land.

Limited supply and sustained demand are causing land prices to remain largely consistent, with the exception of marginal hill ground (discussed in **Section 4.6**). Despite a slower market, land values remain largely the same or have increased slightly.

4.3 Off-market transactions

Each year the agents are asked to comment on the levels of off-market and on-market activity. The overall message from agents was that off-market transactions were still occurring, but levels either remained "broadly similar" (P13) to previous years or having reduced slightly. Some of the agents reflected back to 2020-21 when considerably more off-market sales occurred and compared the market this year to that previous period.

Estates are a sector in which off-market activity is a more common occurrence, yet even these have seen an overall reduction in off-market sales. One agent calculated that in 2021 roughly 60% of sales in the estate sector occurred off-market, whereas this year this came down to roughly 50%.

Interestingly, prime arable land was a land class that has experienced higher than expected levels of off-market sales this year, mainly between neighbours:

> "It's quite strange market in many ways. Still very buoyant for prime arable ground. Very buoyant. Prices and land values are still creeping up. Not very many big open market sales, lot of private sales." (P6)

One agent provided insights into the farmland market, commenting that people with rollover money to spend (discussed further as a demand side factor in **Section 4.4.1**) have contacted them notifying them of their circumstances. If a farm came up for sale the agent asked those with rollover money first, therefore off-market transactions were occurring due to this process:

> "We haven't done a huge amount of off-market. We did, a couple. ... There are people with rollover funds who are on the phone saying I'm actively looking to buy ... So there was a couple of situations where that sort of tied up rather well" (P14)

This was mirrored by another agent, who suggested that people with rollover money might offer above the asking price to ensure the sale off-market and get their rollover relief:

> "And if somebody turns up and knocks on your door and they've got the money, they've got a rollover position perhaps. Perhaps they can afford to pay a bit more – you've got to consider it, haven't you?" (P3)

Following on from this, one agent speculated that off-market transactions might start completing with higher values than the open market, which is a reversal in the dynamic compared to what has been witnessed in previous years:

> "In the last few years, off-market, you could probably actually buy something for less than an on-market price, which I think is probably the converse to what you might get in other markets, where it would be a price premium for [buying off-market]. ... I don't really have any evidence to support it, but I wonder whether that's probably changing now because if people have identified land ... people are probably willing to pay a bit more of a premium to secure that." (P5)

In one region of Scotland, agents suggested there were some off-market transactions of farmland due to tenanted farmers negotiating to buy their farm:

> "I know that there has been and continue to be farmers who were looking to negotiate coming out of tenancies and buying part of the farm. And so I've seen it more so on sales in that scenario where they're already on like longer term tenancies. I haven't seen many private sales to neighbours" (P12)

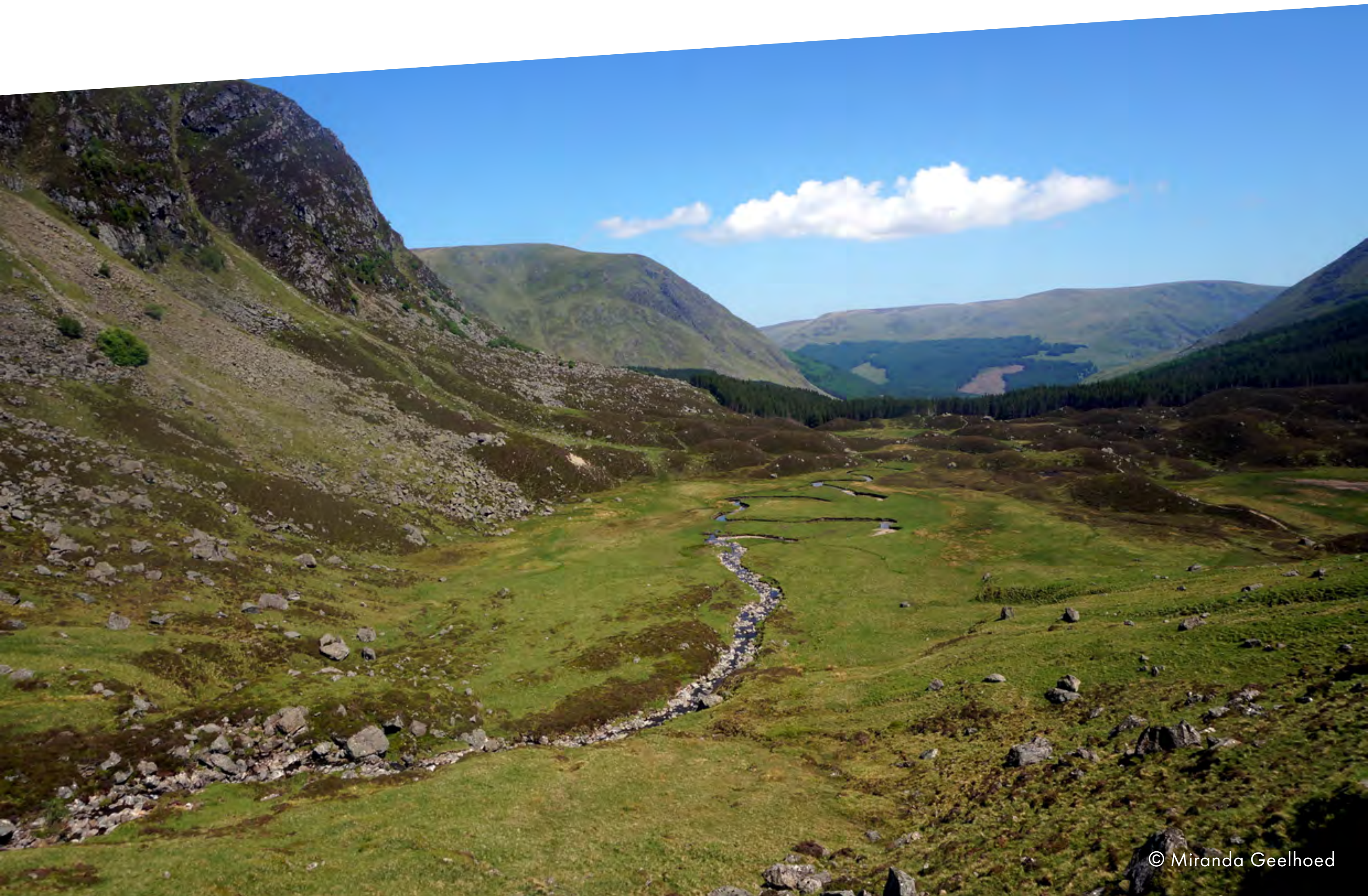
One agent from the East coast reported off-market sales occurring between neighbours was more common:

> "If you want to sell 100 acres on the East coast, you know the most likely buyer is a farmer within 3 or 4 miles over here. He's looking to expand his farming operations and so you know that kind of transaction happens off-market as well." (P13)

Farmers wanting to expand their holdings is a major demand side driver of the farmland market and is discussed further in **Section 4.4.1**.

A new behaviour is gaining popularity amongst the agents, particularly in the estates sector, whereby transactions are occurring in a semi- off-market fashion where estates are marketed to a select group of buyers who bid privately:

> "But when I say off-market, it was marketed through targeted circulation of details to known buyers, investors. So you could say that it's actually an open market sale but not publicly advertised. And we're starting to see quite a lot of that with private estates being sold in that manner rather than going out onto [agency's] websites and being advertised in the press – it's more a targeted circulation of details." (P2)



4.4 Farmland

There are some interesting dynamics occurring in the farmland market this year. The main narrative is that of two tales: Within the agricultural sector some farm business types are doing well, whilst others are struggling. This mixed picture is underpinning the dynamics witnessed in the market this year. There does appear to be variation in the agents' opinion, either regionally (some regions performing better than others) or by sector (some sectors performing better than others).

For some farmers, 2022 was a very profitable year due to good harvests in 2021 and high food prices. It makes sense that these farming enterprises are seeking to expand their holdings to create economies of scale:

> **"So in this area they had two very, very profitable years, and farmers are probably like the rest of us, if they've got money and things are going well, they feel more optimistic and they're gonna spend more, aren't they?" (P3)**

However, some agents thought this year (2023) was trickier for arable units after a successful 2022, therefore the picture might change again next year:

> **"Certainly looking at accounts last year, those that had bought their fertiliser well in advance of the Ukrainian issue - there's some serious profits made on the arable units. [Profits are] not as big at the moment, and certainly this year the back end with the weather we've had up here, it's just been horrendous. And there's very little wheat planted and there's still potatoes in the ground that just won't be touched because they just can't get to them. (P6)**

To nuance this more, it was perceived that livestock/mixed farmers have had a good couple of years, because carcass prices have been reasonably high whilst cereal prices have been relatively low.

The agents' perceptions of dairy farmers were mixed, possibly because they were very profitable at the start of the year but reduced milk prices later in the year affected them badly. Therefore, some dairy farms were seen to be struggling, whilst others were looking to expand. Agent perceptions were therefore notably conflicted:

> **"There is such instability in the industry. A lot of people holding on and I'm not sure dairy farmers in particular are in dire circumstances, dire straits." (P15)**

> **"Obviously dairies had a fantastic year last year" (P3)**

Irrespective of the challenges or opportunities different farming operations are facing, demand has been consistent enough that the value of most types of farmland has remained largely the same or slightly higher than in previous years.

Maintaining long-term trends, the highest quality arable land is still in high demand and is achieving high prices:

> **"The wealthiest, most successful farmers in these counties want to buy the best land. They realise that it's very much a finite supply and when the opportunity is there, buy it, because if you don't, someone else will and the opportunity won't come around again for probably a number of years." (P13)**

However, even within this highly desirable land class, stories were beginning to emerge of a lack of demand occurring, somewhat mirroring the overarching dynamics of a slower market in 2023:

> "I can think of one particular block of very good arable ground which was pushed around privately for a long time to all the sort of usual suspects who would be interested in buying bare land. Nobody bid for it. Then it went on the open market and as far as I'm aware it was offered in four lots. I think they only got one lot away and have actually ended up retaining the rest of it. ... I suppose you could say that arable actually, people are being a bit more selective, a bit more cautious" (P14)

As will be explored in greater detail in the forestry section (**Section 4.5**), the value of marginal hill land has come back significantly from the heights of 2020-2022, which is due to reduced demand from the forestry sector. This price decline has been documented elsewhere (see **Glendinning et al, 2023**[22] for example).

One agent noted a distinct lack of institutional investors in the Scottish farmland market (both historically and recently):

> "I sold quite a lot of land between 2003 and 2017-18 and some pretty big farms locally ... And what always struck me was how little institutional interests there was ... in this area, its mainly farmers buying to expand. There are exceptions, particularly on the bigger units, but it's mainly expanding farms" (P3)

Interestingly, one agent noted how mixed farms were beginning to see more interest, as they serve a blend of food production and nature restoration. These units can accommodate rotations and regenerative farming which has started to be promoted by farming groups and publications. This is an emerging trend that should be explored in future iterations of this report.

> "I certainly encounter a fair amount of talk about moving back to a slightly more traditional farming methods as sort - more of a mixed rotation with the farming enterprise. And so therefore, I think the mixed units that we've had on the market over the last 10 to 12 months ... actually had a considerable amount of interest. Both locally and nationally and even in one case internationally" (P14)

4.4.1 Motivations for buying farmland

Using the same framework that was created for the Rural Land Insights Report 2023 (found in Appendix 5 **here**) as a starting point, and adding any emerging themes, we found 16 motivations for buying farmland. The full list and the number of references to each of these is available in **Appendix 2**. The main buyers in the market are still farmers, with reduced interest from lifestyle buyers.

In this year's analysis, increasing holdings to produce economies of scale was the most cited motivation for buying land. Those farmers who have done well and have had profitable years were looking to expand their holdings.

> "I'm looking at the ... 10 farms that we already bought or sold or been involved in this year, and they've all been, [with one exception], bought by expanding farmers, some of them privately, some of them with rollover." (P3)

22 Glendinning, J. and Merrell, I. (2023). *Rural Land Values, Sales and Investment Trends.* [online] SRUC. Available at: https://sruc.figshare.com/articles/report/Rural_Land_Values_Sales_and_Investment_Trends_Research_Briefing_/24773286/2 [Accessed 24 Apr. 2024].

Potato growers and other larger commercial farmers were reported to always be on the lookout for new land but were starting to become more selective. If farmland came to the market, there was always some degree of interest from neighbouring farmers – in some cases however, the larger commercial farming businesses were able to outbid the local interests.

The second most cited reason for purchasing land was due to some farmers having funds available from selling their farm, who wanted to reinvest the money and make use of rollover relief:

> "There's certainly been plenty of people out there who are looking to buy ... From what I can see, it seems to be a combination of the historic move from England to Scotland, you know, people getting better value for money up here, but also, coming off the back of a very active market for land being sold for trees. There are a lot of people with sort of quite sensible money to be rolling back into land." (P14)

One agent suggested rollover funds were actually the primary driver of the market this year and that prices would have fallen if it were not for these funds:

> "[Rollover funds have] died down a bit, but it is the predominant source of funds I think for people who are buying, and those are the people that are leading the market. If you took those people out of the market, we might actually see falling values. ... Off the top of my head, nine out of ten purchases will be a rollover buyer and they were being fuelled by land development sales or tree planting sales." (P7)

The rollover relief situation is interesting. Typically, over the past two decades the big figures achieved from selling land were to housebuilders or windfarm developers, both of which have been reducing their demand in recent years (see **Section 4.8**). However recently, the big sales have been by hill farmers selling to commercial forestry or natural capital buyers. Most of these sales occurred in 2020-21, meaning the rollover relief is due to expire by 2024-25.

> "The big money that was coming in from housing developments all over the place, you know, they had a period to get rid of it and with the housing market slowing down for the last four or five years, probably since the start of Covid, people must have got rid of that rollover or else." (P10)

As discussed earlier in **Section 4.3** about off-market transactions, the time-bound nature of rollover relief is causing a small degree of urgency in the market, with some buyers offering over the asking price off-market to ensure their funds are spent in time. It is reasonably likely this trend will be a more prominent feature of the 2024 market as funds collected from the 2020-21 spree of sales to forestry will be expiring.

Compared to last year when agents discussed land suitable for planting being the most influential of any motivation for buying farmland, this year it was mentioned fewer times. When asked about marginal hill land, one agent replied:

> "I think it is certainly ... cooling and prices paid seem to be coming back. There still seems to be people buying and interested in buying. It's just sort of it has slowed down slightly. ... I suppose there's more choice out there for people and they can be a bit more selective in their buying habits." (P14)

There was some discussion amongst the agents of English farmers moving up to Scotland, primarily driven by rollover money and the fact you can get more for your money in Scotland. One agent however provided an interesting industry insight that may be worth monitoring in future years:

> "I have been told that one or two English farmers have moved up from England to Scotland just because remarkably the lack of rainfall in parts of England is impacting on their confidence and future production. Seems remarkable to think someone wants to move up to Scotland for better weather, but I have heard that." (P13)

It is important to note however, that the agent said that this comment was only supported by "market chat" and that no firm evidence currently existed to warrant this as a valid long-term trend. There were also opposing opinions that buyers would prefer to look at England than Scotland currently, primarily for political reasons.

4.4.2 Motivations for selling farmland

It is important to note that multiple agents expressed how limited the supply of farmland was in 2023, therefore the findings of this section are discussing the few rare examples of people deciding to sell farmland.

This year, nine motivations for selling land were identified. As with motivations for buying land, selling to forestry was not discussed anywhere near the levels of the previous years' reports. The typical "Three D's" of death, divorce, and debt remain constant motivations for selling farmland. There was talk amongst the agents that a few more farmers were considering retirement than usual, due to a combination of the uncertainty looming over the sectors (in terms of profitability and changes to regulations/incentives) and the current high values of land.

> "We're seeing people taking early retirement actually because they haven't got any successors who want to take on the farm, and people are going "Right, well, now is the time. If we are going to lose our basic payment or it's going to keep shrinking, I'm not going to soldier on for another three or four years for the sake of it, let's just get out now"." (P14)

When planning for retirement or because of a death, it is becoming more common to make sure all children are given something in their inheritance (rather than just one son/daughter), therefore lotting of farms or selling the whole unit is becoming more popular:

> "Not frequently but often enough, that'd be the motivation behind the sale: "we'd like to raise some capital to pass on to the two kids who aren't farming or take some money ourselves to buy a house in the local village and allow the child who is going to take on the farm to move into the house"." (P13)

As discussed in the overall findings, interest rates were seen as the primary economic reason for the slow market this year (an unwillingness to borrow at current interest rates) and this was also becoming an issue with farming businesses who were overleveraged in terms of debt. These tended to be larger farmers:

> "I think it's a bit more consolidation, they're swapping land so that they can concentrate on a bigger core rather than travelling lots – trying to reduce costs, inputs, diesel, wear and tear on machinery. And also just, maybe one or two are slightly financially overstretched ... and they just need to offload 100 acres here and there." (P6)

4.5 Forestry

In previous reporting years, discussions with land agents were largely dominated by the growing influence of forestry (either commercial or natural capital driven) on the land market, with experts in farmland and estates commonly discussing this group. This year there was a stark difference, with fewer overall mentions of the forestry sector. Within the interviewees, a group of five forestry experts provided the bulk of the insights into how the forestry market is behaving.

This year the forestry market has been considerably slower than in previous years:

> "A huge drop in the amount of properties offered for sale in terms of sold properties. There's, I think this year or to date, there's been about £60 million worth of sold commercial forestry properties. Last year, it was about £200 million, so there's a fairly stark drop" (P4)

There has been an "overall lack of available land and commercial forests on the market" (P5) for interested buyers to purchase. However, the plots that have been brought to market have sold reasonably well, due to sustained demand from commercial forestry investors who "still have money to spend" (P4).

The exceptions to this were two very large plots (with a combined valued of £200 million) which were still on the market at the time of reporting:

> "[A forest that size] comes on the market once every fifty years or something. ... And they came on at the time the market was slowing down, money was more expensive. People are being a bit more cautious with what they're doing financially so all, they all just sort of came at the wrong time." (P4)

One agent provided a balanced opinion on supply and demand dynamics, suggesting "effectively we've got a smaller pool of buyers and a smaller pool of suitable properties coming to the market" (P5). Potential buyers were seen to be acting with considerably more caution.

Multiple agents (mainly those outside of the forestry sector) thought land suitable for planting (whether estates or bare farmland) had experienced a bubble or a "blip" (P6) in recent years, and that bubble was showing signs of deflating "back to a more sensible level" (P6):

> "You know when any market rises as sharply and as steeply as planting land did over [2020 to spring 2023], ... it corrects itself at some point ... If it goes up by you know over 100% in the three year period then there's probably going to be a correction at some point. (P13)

Demand has been cooled by multiple different factors which came together at roughly the same time:

> "So we've got this situation in the past year, where costs have risen so high, problems of getting through schemes and tinkering with the woodland carbon code have basically come together to create a lot of uncertainty and a devaluation of planting land" (P15)

The most common response provided was around lower timber prices:

> "I think we're in a very different world now – the last 18 months – particularly in the forestry industry, we've seen a significant fall in the value of timber. So standing sale prices are probably anywhere between 25% to 30% down where they would have been 18-24 months ago." (P5)

Confidence in the sector has decreased due to uncertainties created from a lack of clear policy direction around tree planting, with some agents perceiving the government to have retreated from their initial goals. What makes forestry a less appealing investment is the lack of clarity and uncertainty arising from an (in their eyes) inconsistent and lengthy planting approval process:

> "The political environment, particularly in Scotland is one of significant support for new planting in particular, both for commercial and for native. I think the difficulty is in the delivery of that policy. The approvals is a significant barrier ... it really brings about huge uncertainty. [As] an experienced forestry team we can look at a piece of land and say silviculturally that this has a lot of opportunity, but actually we can't get any certainty out of the regulator as to what we might be able to achieve [in terms of species mix]." (P5)

This year the maximum percentage of one species allowed was capped at 65%, with some agents expressing how this should have been on a case-by-case basis rather than a universal figure. This is affecting the profitability of new stands and is putting investors off. Another complicating factor was the number of times planting permissions went back for additional rounds of consultation, with one agent providing an example where one planting permission went through over twenty rounds of consultation.

Last year we reported forestry was moving "down the hill" to acquire more fertile land. However, it appears this year this message is becoming more nuanced, and that the forestry sector is finding its place within the landscape in terms of land suitable for planting:

> "There's effectively the regulation (because of biodiversity and such) pushes us down the hill and farming interests pushes us up the hill." (P1)

4.5.1 Motivations for buying forests (or land suitable for planting)

In last year's report, two groups within forestry buyers were beginning to emerge – commercial forestry and natural capital investors. This distinction has become far more delineated, with some agents discussing these two groups separately when asked about buying motivations.

> "There's a new category of investor who is interested in native trees, in carbon, and in biodiversity. And those things go quite well hand in hand. But then there's the preexisting investors who are interested in that long term predictable cash flows from commercial forestry and are very much interested in the UK's lack of domestic timber" (P1)

> "I think it's not just a case of understanding how many buyers are out there. It's also understanding what their motivators are." (P5)

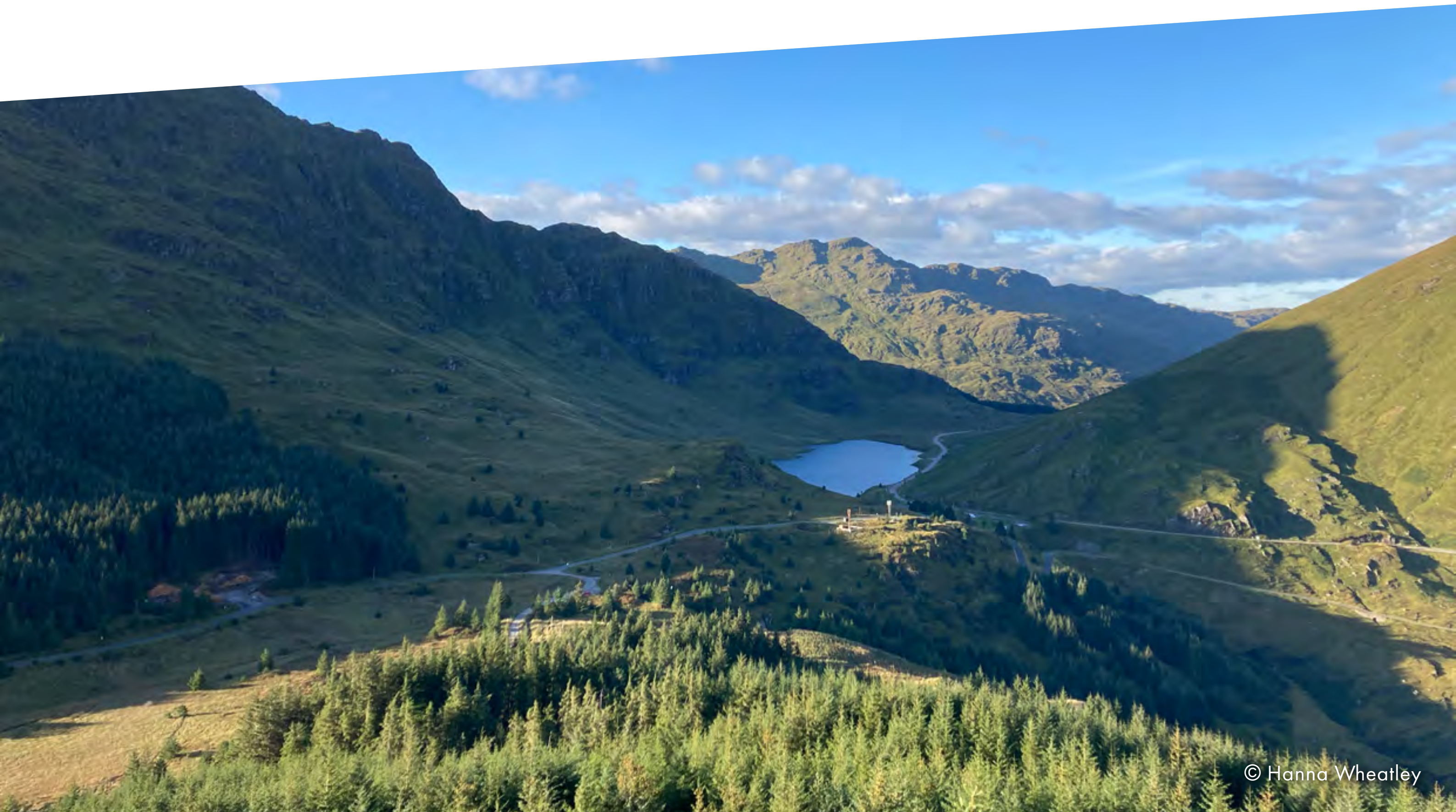
As such, two sets of motivating factors were reported – one for each type of buyer (the carbon woodland buyers are discussed in **Section 4.6**). For commercial forestry companies, the long-term outlook for timber prices (despite a short-term dip) still looks appealing, and therefore the overall long-term rationale for investing in forestry remained. The following quote from one agent describes the multiple rationales for wanting to invest in forestry:

> "Investors are interested in that long term predictable cash flows from commercial forestry and are very much interested in the UK's lack of domestic timber ... And at the same time, we're dependent on imports ... and the bulk of that comes from Scandinavia [and the] Baltic region. And I question whether they want to keep chopping down their forest and sending them to us. ... And also the domestic supply is actually falling because we planted loads of forests on peat which ... are not getting replanted ... And we're also diversifying those forests because when they got planted [they were] literally 100% Sitka spruce, right. So when they get reharvested and restocked, they're not now 100% Sitka spruce. ... So some investors are like: "That's coming and that's going to mean that timber values in the UK will rise and that's our investment case. And we're sticking with it. Carbon was nice for a while, but this is what we're doing"." (P1)

4.5.2 Motivations for selling forestry

Following on from previous reports, the agents suggested there was very little reason as to why someone would sell a forest. Some of the forestry agents expressed how mature forests were sometimes sold because they were reaching maturity at it was at that stage of the cycle when it was time to realise their profit.

Interestingly, one agent hypothesised that a dynamic may start to emerge which is similar to that which occurs in the housing development market, whereby land is purchased, planning permission is approved and then the land is sold at a premium. Considering that issues around attaining planting permissions and getting woodland carbon code projects approved (discussed in the next section) were aired, it may become a business model in the future to purchase land and attain permission, before selling it at a premium.



4.6 Land suitable for natural capital schemes

This year the agents suggested that purchasing land for natural capital purposes has slowed considerably and is happening far less than in previous years.

> "Now I would say having sold quite a large area in the Highlands this year, there were not that many people looking in the market for natural capital projects of scale" (P15)

Several reasons were provided as to why this was the case. Agents primarily discussed woodland carbon as there appear to be more factors and issues at play compared to peatland carbon.

Agents who provided land management services (and increasingly, guidance on carbon schemes) perceived that those who are currently entering into carbon schemes already own their land, and are looking to bank carbon credits in case they are required in the future (insetting against their own activities), as opposed to people buying land with the intention of entering a scheme:

> "It tends to be that our clients, 70% of the applications that we've done are for existing landowners and farmers, who have a view to offsetting their own emissions in their own businesses" (P9)

Around 2021-22 there were purchases of large estates by companies who wanted to generate carbon credits to inset against their own business activities. BrewDog's purchase of Kinrara Estate was an example which were greatly reported in the media and caused a degree of public backlash (e.g. **here**)[23]. However, multiple agents thought that companies like this have now instead started focusing on how to green their own operations internally, rather than investing in a land as a means of achieving the same thing:

> "It kind of cooled off a wee bit, I think the [companies] that were sort of panicked into thinking they had to go and buy huge areas of forestry and peat, I think they've actually realised they don't actually have to." (P6)

Instead, companies who are looking to purchase credits to use against their own carbon balance sheet are increasingly looking to form partnerships with landowners rather than purchasing the land themselves:

> "I think now the music is a bit more like if we can do it through a partnership or if we can just acquire the credits, that's better, because actually owning land is a bit of a headache, especially in the landscape of like potentially land reform or further land reform and some of the negativity that comes with owning land like the Green Laird type arguments." (P8)

23 Carrell, S. (2022). Lost Forest: why is BrewDog's green scheme causing controversy? The Guardian Available at: https://www.theguardian.com/environment/2022/mar/05/lost-forest-why-is-brewdog-green-scheme-causing-controversy [Accessed 22 Apr. 2024].

Another alternative model which is gaining popularity is for a company to lease some land, or to help fund the initial stages of the project for a share of the credits in the future:

> "The 'in between' [of selling the land or entering a carbon scheme alone] is that you lease your land and so I think the rising question is: Is that a good model? You keep your land, somebody else helps fund the project, because the other thing to remember in Scotland is that the tree planting grants are not very generous. ... In Scotland it could be thousands per hectare that it's going to cost you. So it's not immaterial. So if you lease you get to share that, share some of the costs, the risk, the income and perhaps have a guaranteed rent payment or something like that. So from a landholders perspective, I think that's growing in attractiveness" (P1)

One advantage of the leasing model explained above is that private capital can fund the establishment of a new carbon woodland which could avoid the process of applying for funding through the Forestry Grant Scheme. As one agent explained through their role as a land manager, there are ways for landowners to get paid for growing trees without entering the Woodland Carbon Code at all:

> "I've obviously got to get consent to plant through [Scottish Forestry], but I'm not then claiming the grant. So the developer is planting it ... and then they're paying me a sum to compensate me for the loss of the carbon code. ... I'm obliged to maintain that woodland, look after it, but I'm in effect getting the same payment as I would have got from the carbon scheme, from the developer." (P10)

All of these different approaches have shone a light on why a company does not need to purchase their own land to attain carbon credits, which have had an overall dulling on the demand side.

Despite this, there are still companies and investors whose primary motivation is to purchase land and generate carbon credits as a source of revenue, however, compared to the initial wave of interest, investors are now conducting more due diligence:

> "There's been a lot of new market participants coming in. I think there's been a bit of an education process over the last few years where people have been buying things frankly as far as we can see, without proper due diligence and perhaps they've had the fingers burnt and I think are probably more cautious in what they're buying now." (P5)

One element of due diligence is around economic forecasting. Some agents thought the forecasting in early carbon projects was over-ambitious and that, as the carbon market has matured, the price action is lower than anticipated.

> "I think there is probably a pause or a sort of a caution if you like around the modelling on which the prices are based. And you know we've seen some funds pay some very big sums of money ... My sense is that there is quite a lot of circumspection about that modelling." (P11)

Another complication for these projects is the amount of time it takes to attain planting permissions.

Earlier projects were not aware of this and hadn't accounted for this in their due diligence, but now investors are becoming aware of the issue and are being put off by this lengthy process:

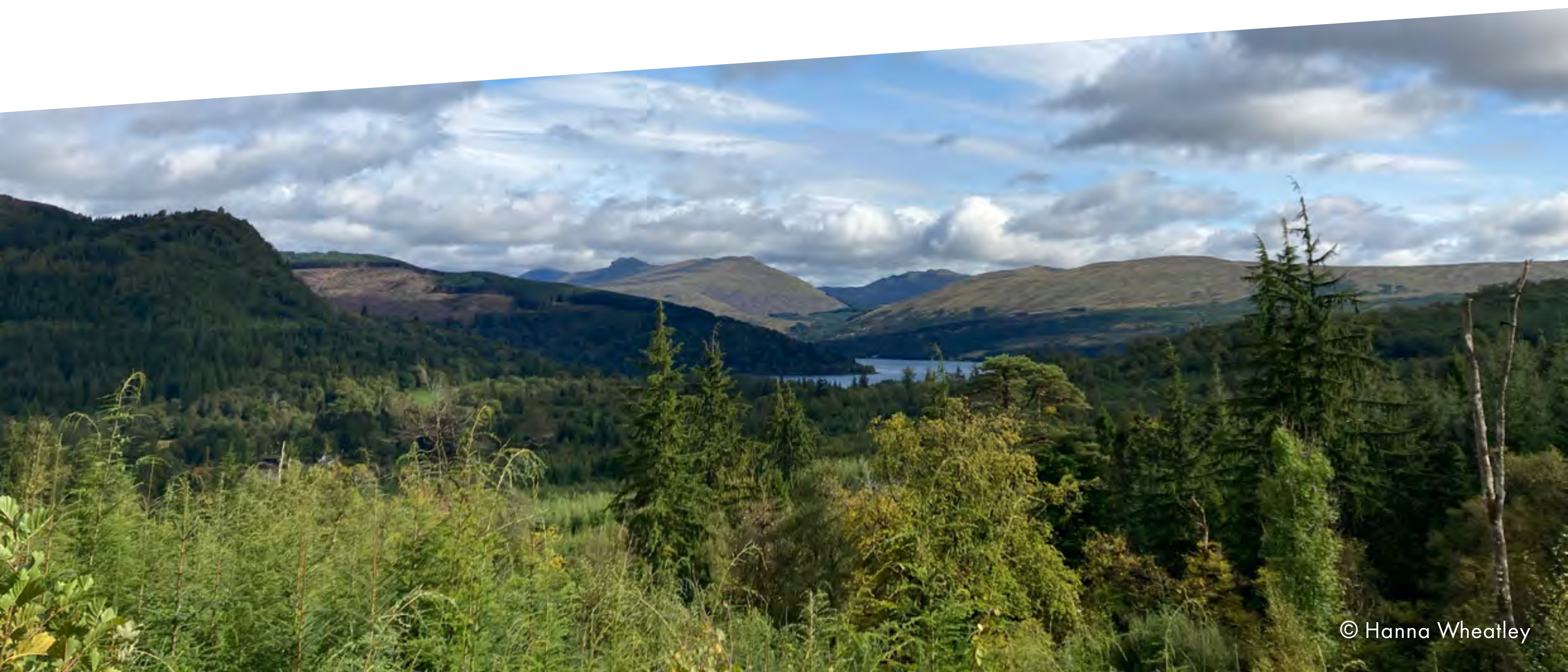
> "Investors are becoming increasingly more concerned about the amount of time it takes to get through a planting project, from buying land through to actually getting the FGS contract in hand. You're looking at potentially a year [or] two for the medium to large size schemes. Smaller schemes of around 40-50 hectares [are] easier to get through. So I would say private investors tend to be focusing on the smaller schemes, which is not really what we want to hear for government targets." (P15)

Whilst in previous years agents had speculated that changes to the Woodland Carbon Code additionality rule might slow the woodland carbon market, they are now starting to see that it "noticeably had an impact" (P13). One agent provided in-depth insights into how the original Woodland Carbon Code was having adverse effects on the market:

> "If we look at what happened going back over the last three or four years especially with the woodland carbon code. The additionality rules really meant, in a roundabout way, if you were focused on [tree planting], the more you paid for the land, the more certain you were to get carbon credits on it because ... the net present value worked in your favour. The more you paid for land the less attractive forestry was as opposed to the current land use, therefore you were guaranteed to get carbon credits and that drove quite a lot of bad practice at it, and it drove a lot of conflict between agriculture and forestry. ... There was a political pushback and the Woodland Carbon Code was changed, and at the time [Cabinet Secretary] said that this change has been brought in to cool the land market, and that is exactly what happened. Land prices have plummeted since that point." (P9)

The agents were not all necessarily against the changes, but they did think the change slowed the market down. It also helped in separating commercial forestry interests from natural capital projects which were becoming blurred.

The agents thought the Peatland Carbon Code was "relatively straightforward getting that approval" (P2) as opposed to the more onerous Woodland Carbon Code. Regarding peatland more widely, it appears similar dynamics are happening aroundwoodland projects whereby landowners are biding their time and not committing to selling their land. One agent suggested that this hesitancy was also somewhat driven by the future promise of biodiversity credits, with landowners not wanting to enter a carbon scheme today if they can get carbon and biodiversity credits in the future.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4.7 Estates

Estates have mixed land uses and are therefore appealing to a range of potential buyers with different motivations. One agent provided a list of reasons for wanting to buy an estate:

> "The concept of ecological restoration of woodland, establishment of carbon accreditation, of renewable energy, of engaging with communities to improve community prosperity – all of those aspects remain highly attractive." (P11)

Investors and natural capital businesses are interested in buying estates as an investment opportunity. Most of the motivations of these natural capital-driven buyers have been discussed in previous sections. However, additional insights emerged when discussing estates. There was discussion from the agents this year around how this group vary from a 'traditional' buyer (typically a wealthy individual or family) and some of the discussion was framed making this comparison. Of the twelve motivations for buying an estate that were identified this year, ecological restoration and natural capital were the most commonly cited, indicating that natural capital buyers were more active in this market than traditional buyers.

> "[Estates are] more recognised in the market as natural capital or ecological restoration opportunities and the nature of the purchasers has changed pretty fundamentally." (P11)

In almost all cases, investors in natural capital can out-compete amenity buyers:

> "The conventional estate purchaser in Scotland ... has been the self-made individual ... who's attracted by the landscape that Scotland has to offer, by the relatively large size of landholdings available, by the conventional country sports, by the opportunity to improve the landscape, to add value, to improve communities. ... Typically their budgets are, let's say up to £10 million, but not often more than that. Those types of buyers have been priced out of the market by the institutional investors or the funds or the charitable organisations that have greater resources." (P11)

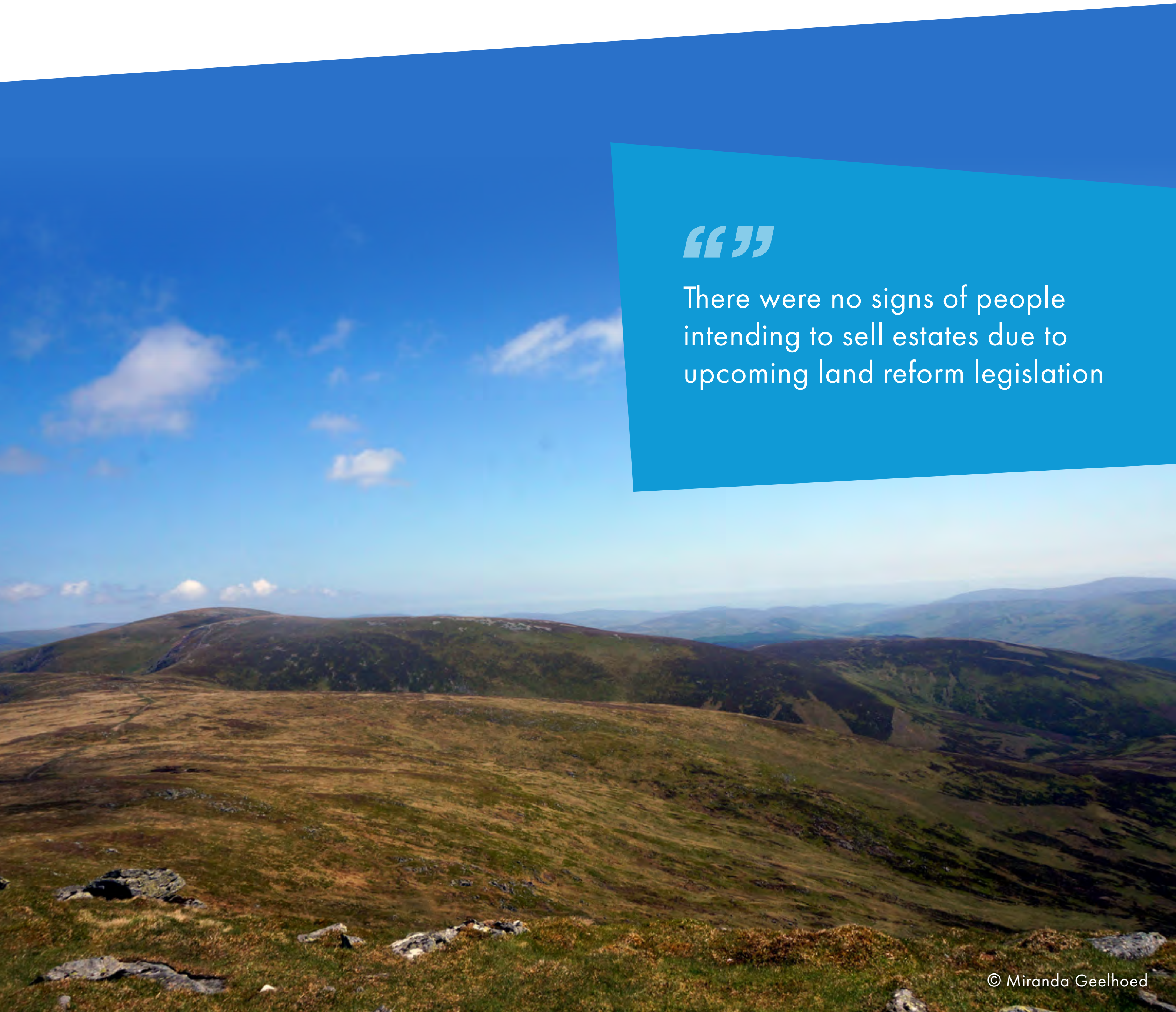
One additional finding regarding institutions or natural capital companies buying estates with a "substantial residential portfolio is not necessarily that attractive" (P11), neither is an estate with multiple enterprises attached to it. Therefore, if an estate with a large house but a relatively small area of land comes to market, the natural capital investors are less enthused by this:

> "Quite a lot of these sporting estates, they'll have lodges, houses, farms on them. ... usually with those assets come quite a lot of stuff. And so if you're taking on an estate like that, you've then got to continue with those projects for employment as it doesn't look good for institutional investors and natural capital [companies] to be creating redundancies." (P2)

One agent questioned which of these two groups would be the better stewards of Scottish estates, favouring private individuals in the end:

> "I think what remains to be seen is whether the guardianship of 10,000 acres of the Highlands let's say, by a fund with appointees and committee members that change periodically and have less personal emotional attachment is better or worse than a well-funded individual who's fallen in love with the place and spends a lot of their money on it. ... I think the pendulum will swing back in favour of the self-made individual" (P11)

Similarly to the findings reported above for the forestry and farming sectors, common reasons for selling estates include death, divorce, and debt, but also people aiming to take advantage of current high land values. There were no signs of people intending to sell estates due to upcoming land reform legislation, however, there was talk amongst some of the agents that it was putting people off wanting to buy Scottish estates currently.



There were no signs of people intending to sell estates due to upcoming land reform legislation

4.8 Other buyers: renewables developers and house builders

Compared to previous years when the agents rarely mentioned windfarm developers, it appears that renewable energy developers (including solar and battery farms) are becoming more active again. They are either looking to extend existing sites (as a lot of infrastructure is already in place) or create new sites on leased land:

> "There's definitely an upturn at the moment. With all the main players and then even new ones coming out, looking to get extensions or where they can tap into existing road networks and connection points." (P6)

One agent had a recent experience of dealing with a windfarm developer looking to extend their site. There are stipulations associated to planning permissions whereby developers need to reforest areas or restore peatland (which can't be entered into a carbon scheme). With the scales associated with renewable energy infrastructure these stipulations become expensive and require a large area of land to compensate for these developments. The agent went on to suggest that if biodiversity credits are to become a reality, then landowners may be less inclined to lease their land for renewables, as more money could be made from biodiversity credits:

> "People are approaching me saying: "I want 500 acres, and I'm going to put up five turbines and look at this, isn't this wonderful. That's 25 megawatts you are going to make £250,000 a year". And I'm sitting there saying: "If biodiversity units are worth what I think they're going to be worth, you're not as attractive as you think you are". ... I think wind farm developers and SSE to some extent, might be walking around saying, "Well, do you know what? It's cheaper if we just buy it and do ourselves". (P10)

Another agent provided an example which had similar sentiments:

> "So I did have an inquiry ... an energy developer is acquiring land to develop a solar park. And would it be a good idea to also buy a little bit of extra land alongside it for biodiversity offsetting either for themselves or to create a habitat bank" (P8)

The housebuilding and construction sector were mentioned more this year than in previous reports, although this was mainly in the context that they were slowing their buying. Macro-economic factors were cited for this, including the cost to build a new house, the slower housing market and the high cost of mortgages currently. One agent provided an example of a sale that would have previously been a reasonably fast transaction to a housing developer:

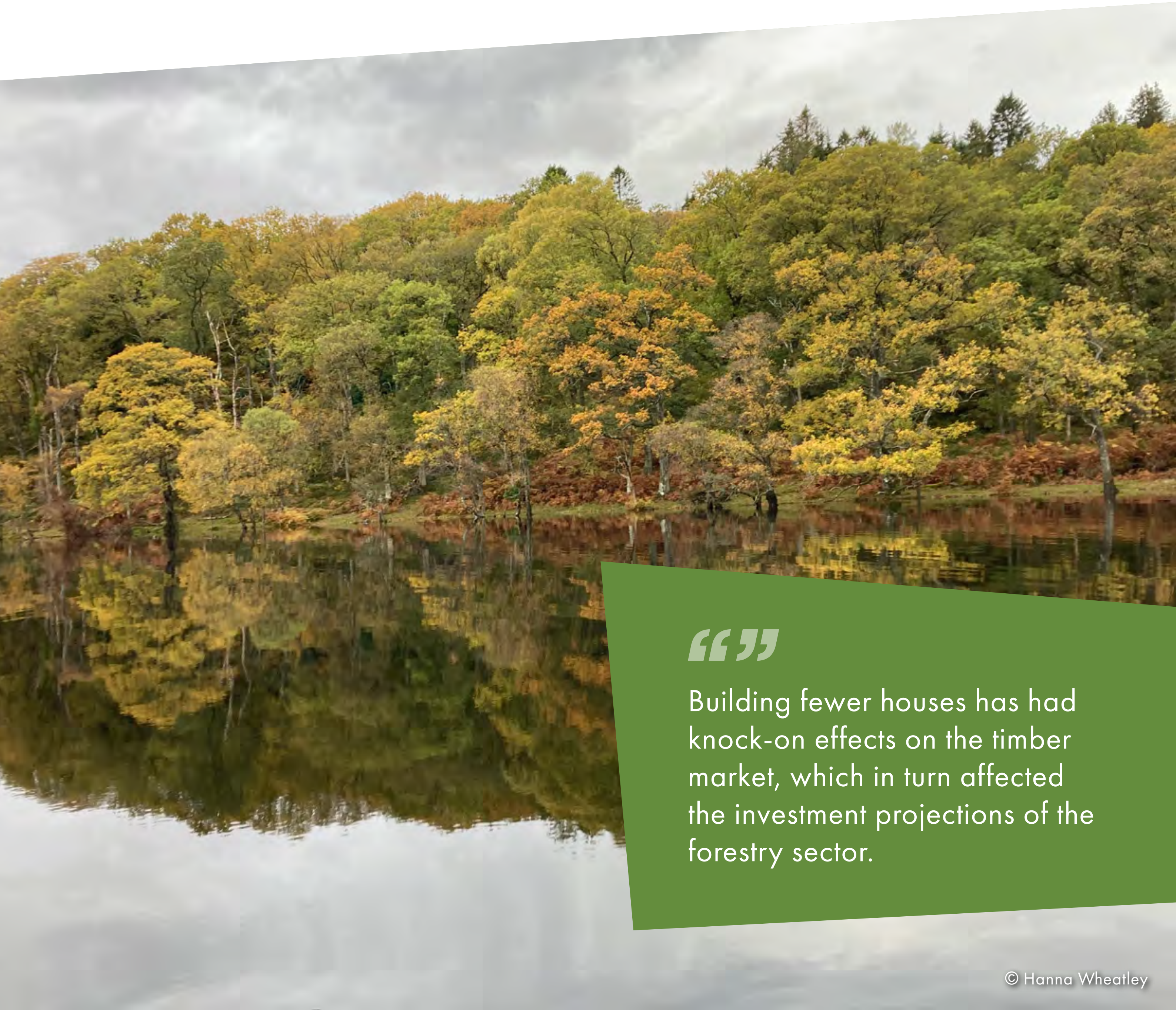
> "[We] have contacts in the development world who we put things to. For this particular one, it's in the central belt in a pretty desirable area, it previously had planning which has lapsed, but it's quite an attractive concept. We've put that out to maybe 30 or 40 different developers and it's just struggling." (P14)

Building fewer houses has had knock-on effects on the timber market, which in turn affected the investment projections of the forestry sector.

> “As the economy slows down, naturally, house building slows. ... I think as construction gets back up on its feet after a fairly slow last 18 months, timber prices will probably start to increase.” (P4)

This year a couple of agents hinted that the new planning system, National Planning Framework 4 (NPF4), is showing early signs of affecting the market for the worse, by increasing the “length of time to get approved, [introducing] unnecessary stumbling blocks ... [and not] enough planning officers” (P12). This is an emerging trend that needs more attention in future reports:

> “NPF4 is having an effect on outlook and everything else. And I think the land development boys are having a very torrid time and I think most of the builders at the moment are sitting on their hands. (P7)



Building fewer houses has had knock-on effects on the timber market, which in turn affected the investment projections of the forestry sector.

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4.9 Future trends

Several themes were raised by the agents about the future of the land market. Most of these were framed as threats rather than opportunities. There was talk of how the general election may affect policies (particularly inheritance tax) if there was a change in leadership. The introduction of obligations on landowners of holdings over 3000ha proposed by the new Land Reform Bill was seen as a "threat to outside purchasers" (P6) rather than those who already own large parcels of land. Extreme weather events and plant diseases resulting from climate change were also mentioned, as these are becoming more common.

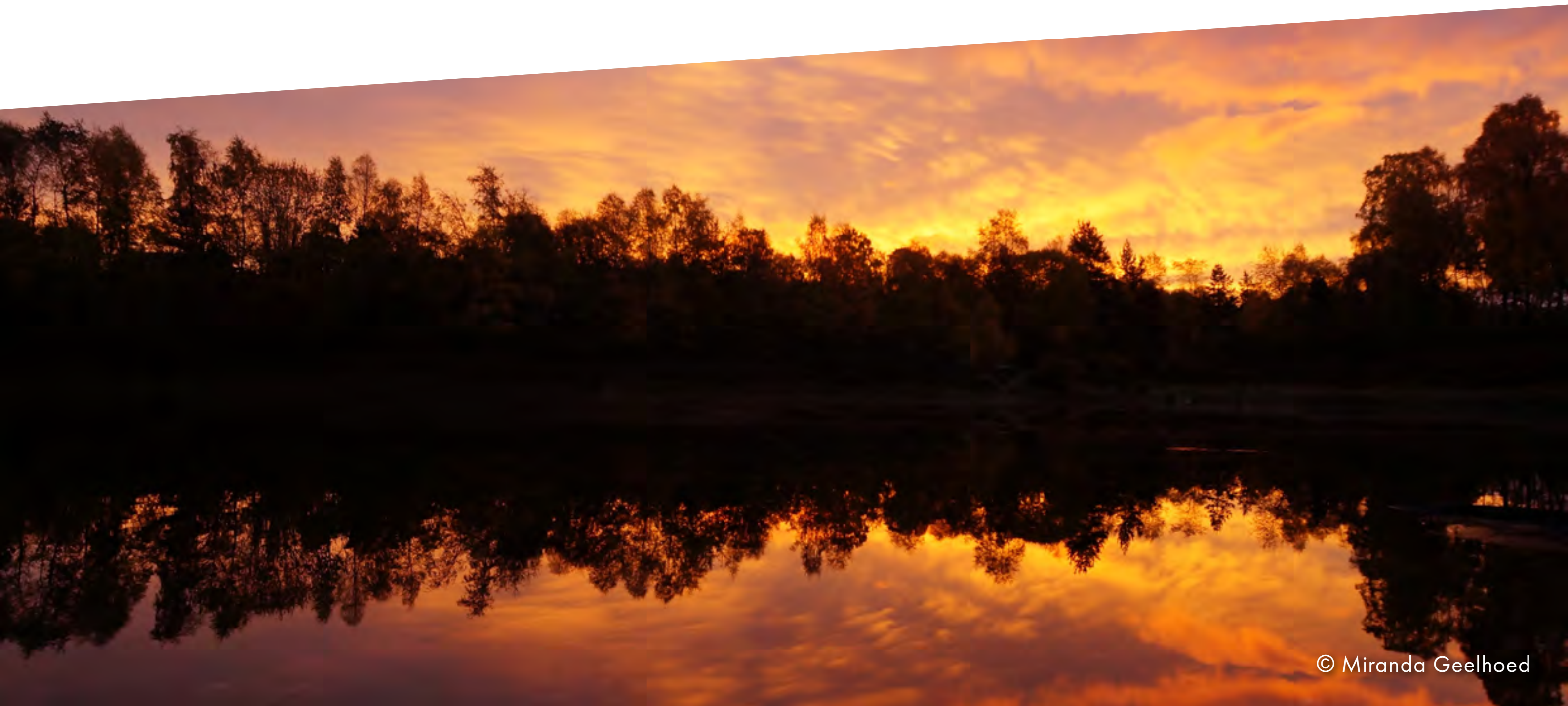
Some agents were optimistic that there would be clarity on some of the uncertainties currently surrounding the market, particularly those that are in the control of the Scottish Government:

> **"I think we're going to see some surety coming into the market as to what's happening with carbon and biodiversity, and we're also going to start seeing the Scottish Government have to think about subsidies after Brexit and what are they going to do." (P10)**

By far the most discussed issue was around agricultural support as farmers will hopefully know more about the new subsidy next year. Whilst some agents speculated that it may spur increased supply on to the market as some people decide to move on or retire (framed as a threat), others saw it as a large opportunity to gain clarity on the future direction of farming and allow farmers to plan for the mid- to long-term more easily than in previous years.

Two further opportunities were identified by agents. Firstly, around lower interest rates which would allow for easier borrowing of money again. Secondly, there was talk of upcoming biodiversity credits. The mood music from the agents was one of intrigue and overall positivity of what the introduction of such a credit would mean for current and future landowners. However, one agent queried how the additionality rule would work for biodiversity credits stacking on top of carbon credits:

> **"I think there's almost an assumption that a biodiversity credit is coming. With stacking, we can already see a little preview of that with the Woodland Carbon Code and Biodiversity net gain in England in that if you're going to stack, you can't just do the same thing and claim both credits for it, because then you're going to fail additionality for one of them. ... You couldn't plant trees for carbon and then say we planted trees so biodiversity has improved and claim it as well." (P1)**



The same agent went on to ponder who was going to buy biodiversity credits:

> "It's not obvious to me yet who the purchaser for biodiversity credits is. Because with carbon you know, there's extreme correlation between your socioeconomic bracket and your carbon emissions. And there's certain products and companies and services that create lots of carbon, airlines and oil companies." (P1)

There were two accounts of (potential) biodiversity credits increasing the cost of land, which was having knock-on effects on the cost of new-build houses and windfarm development. One agent who dealt with sales in both Scotland and England gave the following account, based on an English example, which may help to forecast what effects biodiversity credits will do to the Scottish land market:

> "If we are trying to reduce inflation and you know biodiversity net gain all it's doing is driving the cost of houses through the roof and when we're doing deals for people at £13,000 an acre to offset biodiversity net gain credits, that's just gone on the cost of a house. So it's just fuelling everything" (P17)

It will be interesting to track the introduction of Biodiversity credits and their effect on the land market in future editions of this report.

5 Conclusion

The aim of this report was to uncover how the Scottish land market behaved in 2023 through the expert opinions of land agents operating throughout Scotland. As has been documented throughout the findings, land market activity has slowed down considerably in 2023, with seemingly all sectors of the market experiencing this to at least some degree. The slowing was most noticeable in the forestry sector, particularly for bare hill ground where values fell dramatically, and demand cooled significantly.

Multiple macro-economic factors were found to have contributed to the land market slowing, with high interest rates seemingly having the largest effect. Policy rhetoric was also seen to have affected the market. Both of these demonstrate that the land market is not immune to external factors, as land values (especially estates and marginal hill land) have fallen (with the exception of prime arable) for the first time since this series of reports began in 2021.

The market was also described as sluggish, with demand decreasing, sales taking longer to conclude, and caution growing in the market. Buyers were conducting more due diligence and approvals were taking longer to get through the system (including planting permissions for forestry and planning permission for buildings/infrastructure). This was particularly pertinent in the natural capital and commercial forestry sectors where institutional investors are more likely to be present.

This report is the third edition of the Rural Land Market Insights series and patterns can start to be drawn. It does appear that the first report (focusing on the 2021 market) captured a moment in time where the dynamics of the emerging natural capital market were a big driver of price and demand in the land sector. The second report highlighted a slowing down, as caution entered the market. This third report has confirmed that the upsurgence of natural capital buyers and commercial foresters has since declined due to growing uncertainties from the demand side.

Each of the three reports have investigated the levels of off-market activity occurring. Compared to previous years, levels of off-market activity in the estates sector have lowered (although they are still quite high compared to other sectors), with farmland starting to see a slight increase. Some agents suggested that they have been advertising land privately to a small group of buyers and accepting blind bids. This behaviour isn't strictly off-market (privately negotiated to one party), but it isn't a truly open-market approach either. There were also suggestions that off-market transactions may incur a premium in the future.

The levels of rollover relief and how these funds are driving demand has also been investigated each year. This year it was shown to be a major driver in the farmland market as those who sold marginal hill land to the forestry sector or natural capital companies/investors during the height of the market in 2020-2021 are starting to run out of time to reinvest. It will be interesting to explore in next year's report, as the majority of these funds will have to be reinvested by the end of 2024.

As has been highlighted in all three reports now, it appears that the pattern of landownership continues to become more concentrated, as farmland is either being consolidated by those looking to expand their businesses or (particularly in the case of upland farms) sold to a small number of forestry companies or natural capital investors. This trend has now been demonstrated through Wightman's (**2024**)[24] analysis of landownership in Scotland, where, for example a single institutional investor has become Scotland's third largest landowner in a matter of a few years. In notable contrast, two groups who struggle to access land in the current climate – communities and new entrants to farming – were barely mentioned as in this year's report.

There were some interesting themes emerging that could prove influential in the land market in future years, including: the introduction of the new agricultural subsidy scheme, the emergence of biodiversity credits, the rollover relief situation, the reported rise in interest from the renewable energy sector and the lower demand in the housing development sector.

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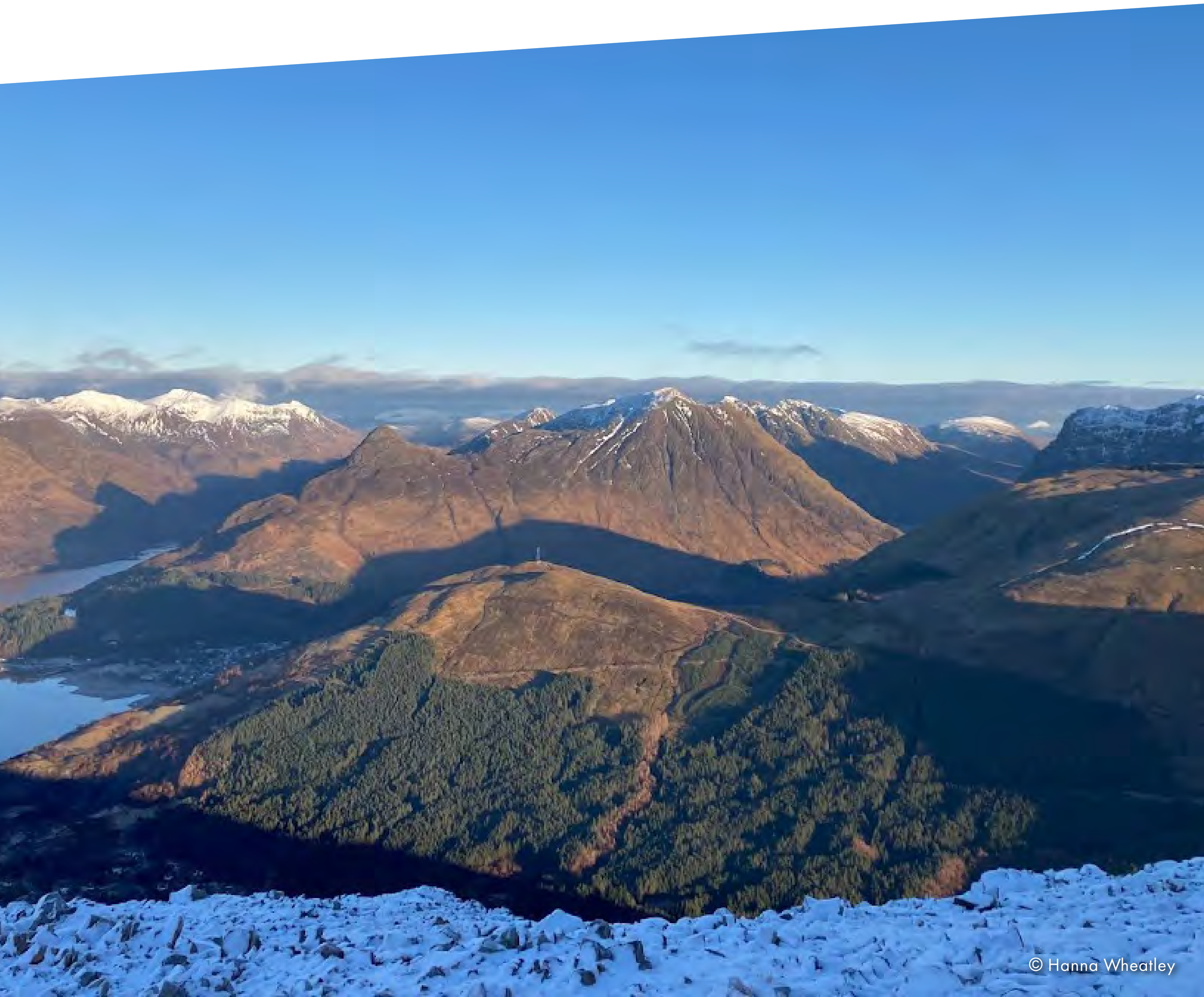
24 Wightman, A. (2024). Who Owns Scotland 2024 a preliminary analysis. [online] https://andywightman.scot/. Andy Wightman. Available at: https://andywightman.scot/docs/WOS_2024_PRELIM_v2.pdf [Accessed 22 Apr. 2024].



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Appendix 1: Participant list

Participant Number	Main expertise	References to different themes/ codes	Individual statements coded during analysis
Participant 1	Forestry	51	98
Participant 2	Forestry	75	334
Participant 3	Farmland	57	123
Participant 4	Forestry	43	100
Participant 5	Forestry, Farmland, Estates	53	159
Participant 6	Farmland, Residential	50	109
Participant 7	Estates, Residential	75	159
Participant 8	Natural Capital	41	81
Participant 9	Forestry	66	163
Participant 10	Farmland, Estates, Forestry	57	115
Participant 11	Estates	44	117
Participant 12	Residential, Development	41	65
Participant 13	Farmland, Estates	45	95
Participant 14	Farmland	46	99
Participant 15	Forestry	41	68
Participant 16	Forestry	34	68
Participant 17	Farmland	46	92

Appendix 2: Coding framework for analysis

Name	Number of agents who contributed to the theme	Total number of statements in the theme
Buyers	**1**	**1**
Big commercial farmers	4	6
Commercial forestry companies	3	8
Community groups buy out	2	3
House builders	5	11
Institutional buyers	13	35
Companies (for insetting)	8	14
Companies (for offsetting)	8	20
Funds (pension or investment)	12	53
Private individuals	8	20
Lifestyle amenity	3	4
Young farmers (new entrants)	8	9
Community (general)	**5**	**7**
Disincentives (general)	**5**	**13**
Estates	**10**	**34**
Buying motivations and factors (estates)	8	26
Afforestation	2	2
Carbon	4	7
Community development	2	7
Ecological restoration	5	12
Esg	1	1
High net worth individuals	3	8
Incentives	2	2
Mix of reasons	2	2

Name	Number of agents who contributed to the theme	Total number of statements in the theme
Natural capital	7	25
Residential (negative)	3	5
Return on investment	5	11
Scale	2	2
Traditional sporting	5	10
Selling motivations and factors (estates)	6	13
Estate lotting	3	3
Internal business reason	2	2
Non price factors	2	3
Premium values	7	9
Regulation or market sentiment	5	7
Retirement or succession	2	2
Sporting	6	9
Farmland	**11**	**40**
Buying motivations and factors (farms)	10	43
Agricultural support or subsidies	5	5
Amenity	4	5
Buying down the hill	1	1
Commodity prices	2	2
Development land	3	7
Increase holding or economies of scale	6	17
Investment potential	5	5
Leasing land	2	3
Macroeconomic factors	3	6
Money to invest	6	13
Natural capital payments	6	6
New (young entrants)	4	4
Plantable land	8	9
Prime land	3	4
Regulation and incentives	7	8
Relocation from england	5	6

Name	Number of agents who contributed to the theme	Total number of statements in the theme
Issues surrounding farmland	11	19
Mixed	5	11
Prime arable	5	14
Selling motivations and factors (farm)	11	30
Agri support uncertainty	4	7
Commodity prices	1	1
Internal business reasons	6	12
Macroeconomic factors	3	7
Other personal reason	6	7
Parcels and lotting	2	4
Premium price	6	10
Retirement, death, and succession	8	16
Uncertainty natural capital	2	5
Upland marginal	13	28
Financial mechanisms	**2**	**2**
Agricultural support and subsidies	12	28
Grants (mainly planting grants)	8	18
Inheritance tax (and other tax)	7	11
Natural capital payments	17	64
Afforestation	6	12
Woodland carbon code	10	30
Biodiversity	5	12
Issues around natural capital	12	22
Peatland	10	19
Peatland carbon code	6	7
Rewilding	7	12
Roll over relief	8	13
Wind and solar farms	7	13

Name	Number of agents who contributed to the theme	Total number of statements in the theme
Forecasting	0	0
Future trends	17	40
Opportunities	5	7
Threats	15	26
Forestry	6	17
Bare land for planting	15	59
Buying motivations and factors	10	34
Return on investment	1	1
Commercial forestry investment – timber	7	13
Carbon credits	7	15
Biodiversity credits	1	2
Natural capital, rewilding, ESG	6	10
Speculative investment in natural capital	1	1
Long term outlook for timber	5	6
Forestry grants	2	2
Inheritance tax relief	3	3
Interest rates	5	5
Inflation	2	2
Additionality or WCC changes	4	6
Planting permission	6	14
Community consultation	3	7
Dip in construction sector	1	2
Forestry funds – special purchaser situation	6	13
Uncertainty – or policy	5	6
Commercial forestry	9	69
Issues surrounding forestry	5	17
Access	1	2
Disease	1	1
Permissions, consultations, surveys	11	41
Scale	1	3

Name	Number of agents who contributed to the theme	Total number of statements in the theme
Natural capital woodland	10	30
Selling motivations and factors	5	15
Death, debt, divorce	2	2
Realise investment, release capital, investment cycle	3	6
Government policy	1	1
Biodiversity net gain	1	1
LHT wrapper	1	2
Housing market	9	17
Market factors (generic)	**6**	**13**
Commodity prices (e.g. timber)	6	8
Inflation and interest rates	15	33
Input costs	8	13
Overall impression of market performance	**4**	**9**
Compared to previous years	17	116
Leasing rather than selling	2	2
Speculation in previous years	1	1
Uncertainty	10	29
Lotted sales	6	8
Off market vs on market activity	15	34
Regional variation	15	28
Supply vs demand	16	47
Public organisations	**0**	**0**
Forestry and Land Scotland	3	3
NatureScot	2	3
Scottish Forestry	11	35
Scottish Government	14	49
Land Reform Agenda	11	23
SLC Scottish Land Commission	11	13
Substantial land use change	**6**	**9**
Valuation of land	**17**	**31**

Appendix 3: Semi-structured interview schedule

Current trends in the market

How is the land market performing since last year? Is it largely up or down?

What does the supply against demand look like?

Is there supply and/or demand for selling land to development/infrastructure?

What is the amount of off-market activity compared to on market?

Are there particular types of land (farm/estate/forestry) that you have noticed a significant change in?

> Probe individual types:
>
> Farmland – is it smaller or larger farms that have experienced changes? Are farms being broken into lots and are these being bought as lots or package? Are people buying farms to farm on, or run other businesses? What is the amount of off-market activity compared to on market?
>
> Estates – is it smaller or larger estates coming on the market? Are they above or below market value? What is the amount of off-market activity compared to on market? Splitting of estates (small parcels or splitting into lots)? Succession?
>
> Forest – Are forests being sold or is it bare land for planting? What is the amount of off-market activity compared to on market? Are sales relating to commercial forestry or afforestation/rewilding?

Are current subsidies and/or agricultural support affecting the market?

How much of a driver or barrier are current government policies and grants around natural capital?

Motivations for selling land

Current primary motivations/drivers for selling rural 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)

Are there any new patterns arising in terms of motivations?

Probe: Individual types of land

Farming – What are farmers motivations for selling? (early retirement due to prices, interest rates rising/overdrafts being maxed out)

Estates – Why are estate owners selling? Are estates coming on to the market? What are the size of these? Grouse licenses?

Forestry – Are many forests being sold? What are the condition of these (age structure)? What are the motivations? Are they selling broadleaved or commercial forests?

Are you noticing any institutional investors/corporations deciding to enter the market or sell?

Motivations for buying Land

What are the main types of buyers you have seen this year? Where is demand coming from?

What are the motivations of new entrants?

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.)

To what extent are new acquisitions/changes in ownership resulting in a substantive change in land use (e.g. farm-forestry conversion etc.)

Forecasting

How do you see the market changing in the future? What are your reasons for this?

Are there any future threats or challenges you foresee?

Have you found the Land Commission's work on rural land markets helpful? How?

Ma tha sibh ag iarraidh lethbhreac den sgrìobhainn seo sa Ghàidhlig, cuiribh post-d gu commsteam@landcommission.gov.scot no cuiribh fòn gu 01463 423 300.

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