SCOTTISH LAND COMMISSION
COIMISEAN FEARAINN NA H-ALBA

Scotland's Rural Land Market

Review of 2023 Insights

The Scottish Land Commission has committed to a programme of annual reporting on rural land market activity to help inform effective policy and responsible practice to support Scotland's programme of land reform. This briefing is the third in the series, published alongside the latest **Rural Land Market Insights Report** covering activity through 2023. Previous briefings and reports covering 2022 and 2021 are available from our website.

This draws primarily on extensive interviews with agents and experts working in the rural land market, but also draws upon material published by the larger firms. The overall aim of the work is to identify current trends within Scotland's rural land market to provide an up-to-date picture of buyer and seller motivations, with a specific focus on understanding how increased demand for natural capital investment is driving activity in the land market.

In line with the practice adopted in previous years, the intention is for this Insights Report to be followed by a Data Report in the coming months which analyses data for 2023 from Registers of Scotland.

What's happening?

The land market as a whole continues to vary significantly by sector and region, although activity across the board is subdued compared to previous years. The market is still clearly demand driven, although there was noticeably less supply and demand in 2023 than preceding years. Overall land values have fallen, particularly for estates and marginal hill land, the only exception to this trend is in prime arable land values which have been steady.

Multiple macro-economic factors were found to have contributed to the land market slowing, with rising and recent high UK interest rates seemingly having the largest effect, as well as high input costs (energy in particular) and lower commodity prices (affecting timber and agricultural produce). Policy uncertainty was also seen to have affected the market. This referred to the wide range of government ambitions and developing public policy, and a perception that these are not joined up, including the land reform agenda, a new agricultural subsidy regime, environmental targets, and natural capital market regulation.

The market was described as "sluggish", and the report points to more caution entering the market as buyers put an increased focus on due diligence, as well as approvals reported as taking longer to achieve (including planting permissions for forestry and planning permission for buildings/infrastructure). This led to forestry buyers seeking established woodland, as opposed to bare land, and also curtailed interest from natural capital investors.

Looking back over the three years of this reporting, it does appear that the first report (focusing on the 2021 market) captured a particular moment in time where natural capital interests in competition with commercial forestry were a key driver of price and demand. The second report highlighted a slowing down, as caution entered the market. This third report confirms that the upsurgence of natural capital buyers and commercial foresters has since declined due to growing uncertainties from the demand side.

Each of the annual reports have investigated levels of off-market activity. In 2023, off-market sales of estates have decreased compared to previous years, whereas for farmland, these sales have increased slightly, following a similar pattern to 2022. This 2023 report also highlights a new shift to semi-off-market sales, where agents advertise land privately to a small group of buyers and invite blind bids.

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Farmland

The overall picture is mixed as some farming sectors were doing well, whilst others were struggling, underpinning the dynamics witnessed in the market in 2023.

The prime arable land market continues to be dominated by larger commercial farmers and has been relatively stable in terms of values and sales. There is a sense that good quality land will always find a buyer, although at the very top end of this highly desirable land class, there are hints that peak prices are curbing demand, somewhat mirroring the overarching dynamics of a slower market.

Succession/inheritance was a factor in many farm sales through 2023, especially moves towards equal inheritance and/or where there is no willing successor. Some farmers are selling land to support children onto the housing ladder, or to acquire a smaller property for downsizing to free up the farmhouse for the next generation.

Farm sales are increasingly splitting land from buildings, and many farmers are selling farm cottages to avoid having to be landlords in the private rental sector and/or comply with short term let regulation.

Competition for mid-grade land favoured agricultural buyers through the year as forestry and natural capital buyers retreated. Similarly, the value of marginal hill land has come back down from the heights of 2020-2022.

Forestry

In 2023 the forestry land sector was noticeably less active than in previous years. 2023 also likely marks a shift when the relationship that in previous years held timber and carbon focused forestry buyers closely together, changed with forestry investors being much more clearly motivated by one or the other.

Enthusiasm for afforestation to generate carbon credits continues to be significantly curtailed, reportedly influenced by changes to the Woodland Carbon Code, uncertainty over future regulation, and survey and consultation requirements. For some who bought land for planting in 2020/21, it has taken 2-3 years to get through the approval process, which is seen as a risk to current potential buyers. As a result, planting land is reportedly down in value compared to previous years. The evidence indicates that land suitable for planting (whether estates or bare farmland) experienced a bubble in recent years, and that bubble was showing signs of deflating.

Established timber plantations saw steadier activity. Overall, fewer properties were coming to market, though many of the plots that were brought to market sold reasonably well, due to sustained demand from commercial forestry. The exception to this were two very large plots (with a combined valued of £200 million) which were still on the market at the time of interviewing.

As a result there was a clear trend of forestry buyers noticeably seeking established plantations, while being much less enthusiastic about bare land. The long term outlook for timber remained positive though, indicating this may just be an easing in demand after a period of frenetic activity.

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Natural capital

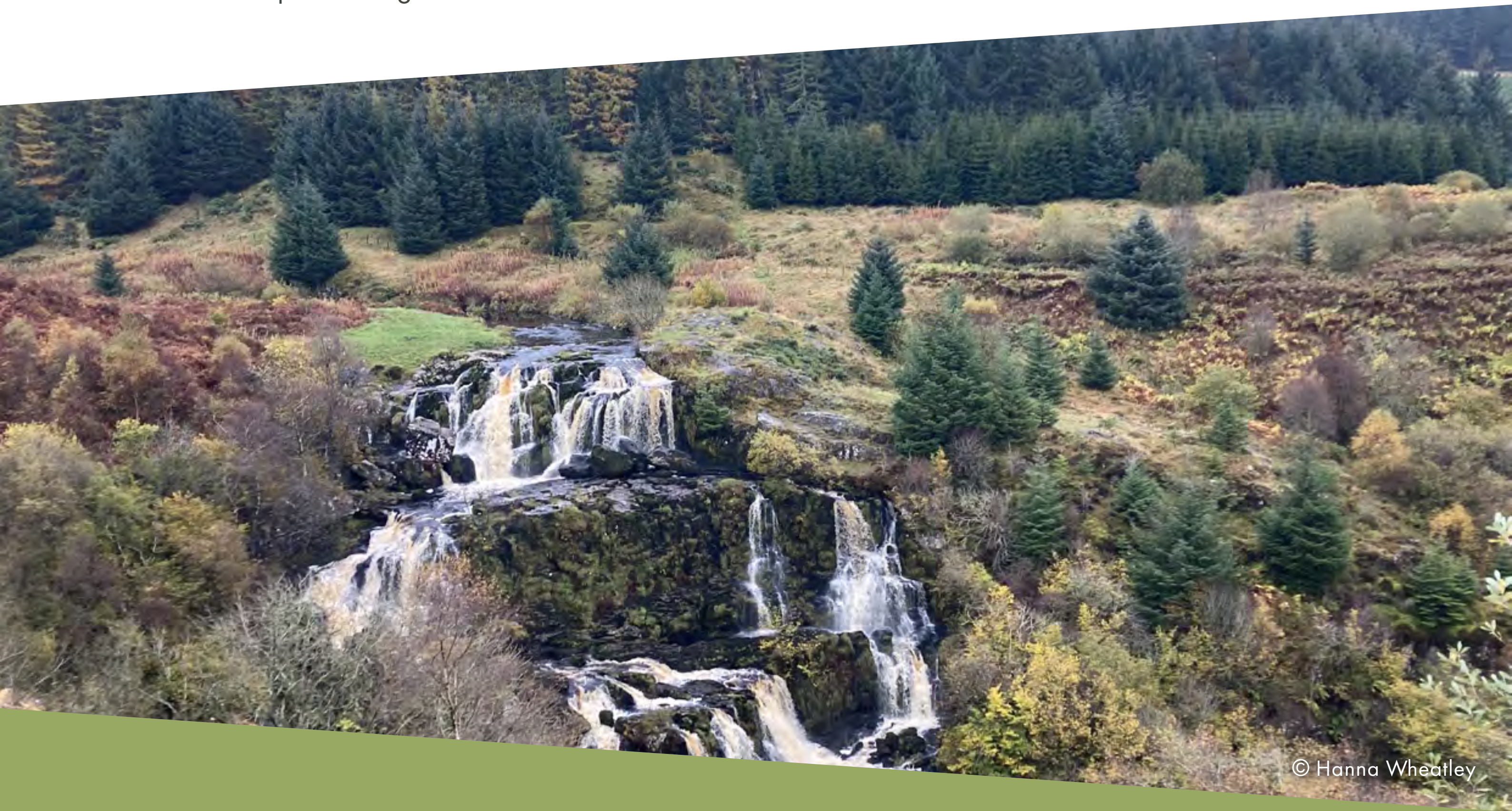
The overall picture indicates that the volume of land being sold for natural capital projects was far lower than in previous years. Natural capital remains widely discussed, but actual sales activity is subsiding as buyers are asking more questions about the economic models and potential regulatory frameworks.

Investors are also reportedly waiting for the "heat" and "speculation" from recent years to subside, or have moved on to other things. Interest in land acquisition from the corporate and institutional buyers that had been driving activity in previous years was largely absent through 2023.

Agents who also provide 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).

Companies who previously wanted to buy land for insetting their own emissions are instead said to be focusing more on how to green their own operations internally, rather than investing in a land as a means of achieving the same thing, which may reflect greater public scrutiny.

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.



Estates

In almost all cases, investors in natural capital were able to out-compete amenity buyers, however, the significant drop in interest from corporate and institutional investors has seen a move back to wealthy individuals as a stronger market influence in estates.

The motivations of individuals are often less driven by financial return (compared to a corporate or institutional investor) than by a specific land use ambition (environmental, amenity, sporting, etc.).

Emerging themes

Land agents felt that Scottish Government has slightly stepped back from the natural capital agenda over the last two years, leading to greater uncertainty. There is a very strong sense that the policies/grants/regulations, or lack thereof, of government and public bodies significantly impacts the land market.

Off-market/private sales account for around half of all transactions, with agents reporting increasing numbers of clients on their books seeking opportunities. While fewer estates are being sold privately, more farmland is, continuing the trend seen in the previous year. Some agents report a new approach to transactions, a form of semi-off market/private sales where land is marketed to a select number of clients/investors simultaneously who then bid privately.

Impending Capital Gains Rollover Relief deadlines have become a decisive factor for those it affects, and a significant influence on prices and activity.

Land agents reported an increased focus on landowners leasing rather than selling their land, e.g. for renewable energy projects, which were more widely discussed than in previous years.

Interest from wind farm developers has noticeably and unexpectedly picked up after several years of limited activity.

Housebuilders have been less active, with macroeconomic factors cited for this, including the cost to build a new house, the slower housing market and the high cost of mortgages currently.

Implications

Drawing on the 2023 report findings and the insights from previous years' reporting, it is helpful to begin to look at the underlying themes that can be discerned from annual market reporting.

Influence of global and national macroeconomic factors

Evidence from our reports over the past three years demonstrate how exposed Scotland's rural land market is to the changing behaviours and fluctuations of the global and national economy.

In 2020 and 2021, the market experienced rapid price inflation as a range of new players entered the market, chiefly anticipating the drive to net zero and emerging carbon markets, alongside a booming timber price driving commercial forestry acquisitions.

In 2022, the market saw land sales driven by investors (particularly corporates and institutions) seeking land as a hedge against rising inflation. Simultaneously, timber prices fell and the commercial forestry sector retreated towards the end of the year.

In 2023, interest from corporates and institutions declined with inflation falling, a predicted serious global recession failing to materialise, and long-term interest rates becoming a key consideration for investors. Simultaneously, high interest rates weakened the ability to borrow money, and combined with high energy costs and lower commodity prices across agriculture and forestry subdued the market further.

These movements demonstrate the influence of wider economic factors on an open and largely unregulated land market. What is perhaps not yet clear is whether this is just a coincidental series of volatile years, or whether the land market is, and has always been, quite so dynamic.

Carbon / natural capital investment reality check

Despite previous enthusiasm for natural capital investment in our report on the 2021 land market, the two latest reports have pointed to growing hesitation among buyers.

This enthusiasm appears to have been tempered most strongly by changes to the Woodland Carbon Code (limiting the availability of carbon credits for conifer plantations), as well as increased uncertainty over project returns, and the social acceptability of land purchases for natural capital projects. The "green gold rush" has not materialised as some expected.

Furthermore, despite initial support from Scottish Government, the three reports to date (2021-23) suggest that public infrastructure and resourcing has not yet been sufficient to support natural capital investment. For example, the evidence consistently refers to issues in both forestry and peatland project constraints including staff resource and delays to consents, funding, and permissions.

Fiscal policy

While fiscal policy is always an important and variable area of influence on market activity generally, Capital Gains Tax Rollover Relief specifically is having a singularly noticeably impact on market activity and prices.

First noted in the previous report, buyers benefitting from Rollover Relief acquired during rapid price rises in 2020/21 are beginning to run out of time to reinvest capital in land. 2023 saw significantly more activity from this group, who were often able to acquire more/better land than that they had previously sold.

There was some suggestion that these buyers helped keep agricultural land prices stable, and that without these cash buyers prices would have fallen in that sector too.

These buyers were also often the ones approaching agents seeking off market opportunities, and willing to pay above valuation.

There are two distinct groups identified as benefiting from Rollover Relief: those who predicted that the rapid price inflation in 2020/21 was speculative and decided to take advantage then, to re-enter the market now; and a smaller but significant group of farmers relocating from the south and east of England, again taking advantage of recent record high prices there to then acquire better but comparatively cheaper farmland in Scotland.

All of this clearly demonstrates the impact that one policy within one tax can have on motivations, behaviours, values, and prices. This suggests that targeted reforms to taxation of land would be a significant and effective lever for government to use to meet policy ambitions.

Public policy

Public policy has always been influential in the land market. Currently the sheer volume of activity in this area is reported as creating significant uncertainty across the sector and decision making.

In particular, there is an increasing concern that government policy ambitions and targets will not be sufficiently joined up – if not directly in conflict – and support to facilitate changes will be lacking.

While there are major themes around the integration of agricultural subsidy reform, land reform measures, natural capital market regulation, and environmental regulation, there are a number of other policy areas that are also potentially having unintended consequences.

One example noticeable in the current evidence is in rural housing, which is being affected as cottages and farmhouses are split from land to avoid owners having to deal with private rented sector regulation, higher energy efficiency/building standards, and short term lets regulation. Although not a core focus of this research, if this is showing a developing pattern there may be a narrowing in housing options in rural Scotland underway.

Notably within the evidence across all the research to date, while there may be disagreement on specific public policy ambitions or detail, there is universal agreement on the need for and benefits of clear, certain and joined up policy.

Therefore, there is a reasonable implication arising that the land market is very responsive to changes in policy, emphasising that clear and well-joined up regulation could have a significantly positive impact.

What does this mean?

This year's report has continued to highlight how exposed Scotland's rural land market is to fluctuations in the global and national economy, as well as how responsive it can be to fiscal and public policy. Taken together, these implications point to a key role for clear and well-joined up policy, regulation and intervention, to shape the land market in the public interest.

These implications continue to underline the need for ongoing reform, including but not limited to the measures proposed in the Land Reform Bill. It also emphasises the importance of clear land use planning, particularly through the net zero transition, and to giving traction and direction to the Land Use Strategy.

The report points to changing behaviours around natural capital as fewer sales motivated by natural capital took place. Instead, existing landowners and companies are increasingly looking to form partnerships for natural capital projects. This was mirrored with renewable energy projects as landowners looked to lease rather than sell land for these purposes. These findings emphasise the need for innovative governance approaches for the ownership and use of natural resources, to ensure benefits and risks are shared fairly. Reconsidering how the power and decision making of ownership is exercised in this way presents opportunities to fulfil the ambitions of a just transition, while limiting further concentration in the pattern of land ownership.

Read the full 'Rural Land Market Insights Report' **here**.

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