

IPAV FARMING REPORT JANUARY 2020

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Message from the CEO IPAV

I'm delighted to welcome you to IPAV's latest Farming Report and to thank all the contributing members for their expert views.

The agricultural sector, even before Brexit and the current uncertainty and upheaval in world trade, has always been vulnerable to market volatility. The beef dispute is bubbling on for years, with farmers deeply unhappy with the lack of transparency in prices paid by the meat factories. The situation is driving many of them out of the beef business.

One has to ask, what alternative use there is for land and for these farmers, who are prepared to work very long hours. One option discussed in this report is forestry. Speaking to members on the topic, what emerges as the primary reason more land is not being afforested and one rarely, if ever, sighted by commentators, is the lack of income and funding available after the initial crop is harvested. If there are no grants available to plant, but the land must be planted with no premiums to collect, where will the farmer's income come from? Hence forestry, is now being seen more as a generational crop, a pension fund for children, rather than a serious alternative to the current beef and land use issue.

As Brexit enters its final stages, every indication is that the UK may leave on harder than hoped for terms. This will have implications for the forthcoming Common Agricultural Policy (CAP) budget. The current level of funding was hard won, given that several EU countries would have preferred to see some of the money spent elsewhere. Now that the UK is leaving, quite what the level of support will be into the future for EU farmers, including Ireland, remains to be seen. The uncertainty around the new CAP agreements is very worrying. While Commissioner Hogan continues as a member of the Commission he now holds the trade rather than the agricultural portfolio.

The climate change agenda has taken a major leap forward. The fact that climate awareness is reaching such high levels of attention and pressure for change, is welcome. However, it also carries risks of over reaction and potential detriment to the first line protectors of our environment - the farmer. The agenda must be pursued in a fair and inclusive way, one that acknowledges and respects the critical role farmers play in protecting our environment. Our farmers must be front and centre in the transition. In this regard it was interesting to note, in a parallel kind of way, that In December 2019, Tourism Ireland warned that an increase in 'flight shaming' could threaten Ireland's position as a European travel hotspot.

Meanwhile, as you will see across the pages of this report, there is a hesitation currently, on the part of landowners, to go to market. If that wasn't enough, those who waited to purchase are now being hit with an additional 1.5% stamp duty, which was introduced in the October budget. Stamp duty now stands at 7.5%. As frequently highlighted by IPAV, this is another real tax. IPAV believes the changes should have been tiered. As a result, many farmers will not purchase land and will choose to lease on a long term basis. We all know that the only real security lies in owning your own land. A common thread from our contributors is the popularity of long-term land leasing. In my opinion, this is not the way to a sustainable farming sector. Regardless of how long the lease is, it will run out, giving the owner an opportunity to take back the land. This possibly may leave the young farmer struggling to find an alternative.

Instead of increasing taxes like stamp duty on young farmers, we should be encouraging them, by making available low interest, fixed rate loans, from the European Central Bank, to enable them to purchase land.

This would allow them to invest in buildings and services, and build a sustainable farming sector of small to medium sized farms, in contrast to what we currently have, where bigger farmers are getting bigger and smaller farmers are becoming extinct.

Pat Davitt FIPAV REV MMCEPI
CEO IPAV.



INTRODUCTION

Welcome to the 4th Institute of Professional Auctioneers & Valuers (IPAV) Farming Report. 2019 is now behind us and what a year it was! What were the key issues determining land prices in general? Rarely, would you find a year where there were so many important issues in play, at one time. How will the sector reflect on the year just gone and in turn, how is that likely to affect the coming year?

It is not unreasonable to say that the single biggest factor at play during the year was Brexit. It gathered real momentum as the year progressed and the closer we got to the proposed October 31st deadline. It had a widespread effect across the country, as it undermined confidence, created uncertainty and in turn forced many people into adopting a 'wait and see' approach, and who would blame them. The agriculture sector was particularly affected by this, primarily due to its dependency on the UK as the destination for the majority of its produce. 80% of Irish agriculture exports are destined annually for our neighbours across the water. The farming sector is worth €13 billion per year in exports alone, to the Irish economy.

Following the re-election of the Conservatives on December 12th in the UK, with a significant majority, it is expected that the political landscape will now start to consolidate, somewhat. Let us be under no illusion however, the really detailed negotiations only commence now, and the 'devil is in the detail'. The optimistic aim is an orderly exit in January 2021. This many believe, is aspirational and discussions are likely to take place for a number of years. A number of economic experts point to the experiences of the Canada model, where the trade deal with the EU will take many years to complete.

Irrespective of anyone's particular political leanings, it is broadly agreed that the UK now has a majority government, with a clear mandate. From an Irish perspective, it has removed some of the uncertainty, which can only be good for the sector.

What were the other key factors at play in 2019? In the second half of the year, unrest and disquiet in the struggling beef sector became a key issue. This was, as a result of continued poor prices being secured by farmers from the meat factories. Initially it took the form of protests outside the factories and this was followed, some months later, by more high profile protests in the public arena, including outside Dail Eireann, Dublin city centre and at a number of national distribution centres for the large supermarket chains. It is clear this issue is not going away any time soon and the farmers are as mobilised and proactive as they will ever be.

Our changing climate led to a very wet second half of 2019 and this in turn had implications for winter crops. Planting was down up to 50% in many areas for winter barley, wheat and oats.

According to long established members of the Institute of Professional Auctioneers and Valuers (IPAV) who specialise in the sale and letting of agricultural land, values for the year remained flat in some areas including Mid Leinster (Kildare, Meath, Carlow) & Mid Munster (Kilkenny, Tipperary & Limerick). The rest of the country experienced small decreases of up to 3%. Within these areas, particular pockets performed better than others, dependent on quality, location and levels of local interest. The headline figure of €10,000 per acre which agents expected to be achieved in recent years, has not transpired. Reviewing sales results from these agents right across the country over the last 12 months highlight that the average price achieved has eased slightly. It now stands at between €8,800 and €9,000 per acre.

Long term leasing is having a real effect on the volume of farmland coming for sale. Its attractiveness to both young farmers and retiring farmers is very evident, for differing reasons.

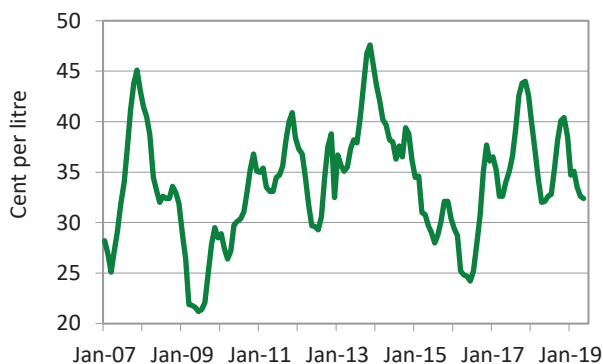


Figure 1. Monthly Irish Farm Milk Prices (actual fat)
Source: CSO

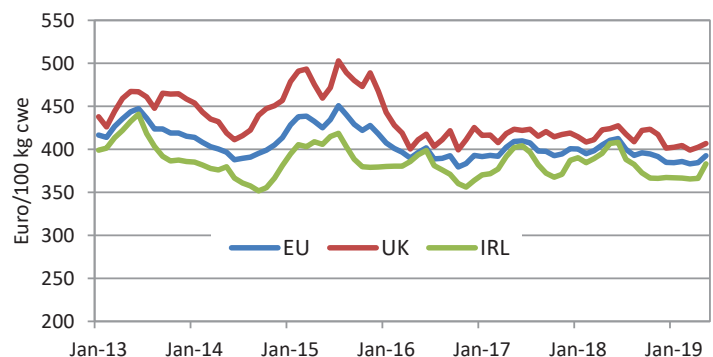


Figure 2. Monthly EU, UK and Irish Finished Cattle Prices 2013 to 2019
Source: DG Agriculture and Rural Development



Dairy

Currently, there are 19,000 dairy farmers in Ireland with an additional 41,000 people employed in processing, marketing and research. The value of exports has doubled from €2bn to €4bn since EU milk quotas were removed in 2015. The sector has held up reasonably well in 2019.

Milk prices began to fall in the early part of the year from an average of 32c per litre to 30c per litre. This was fuelled by falling international demand. Prices then stabilised for the rest of the year and are expected to be positive in the early months of 2020. Small increases were well received at the latter end of 2019. Prices were down 5-7% year on year. Ironically, prices being achieved today are at the same level as they were in 1995 which tells its own story. (See graph above 2007-2019)



Beef

The Irish beef sector finds itself in a real state of flux as a result of the poor prices being secured from the factories. Lengthy protests initially commenced outside meat factories in the middle part of the year, only to be extended to government buildings and supermarkets towards the end of the year. Negotiations are ongoing but are far from being resolved.

Irish beef production increased by 6% in H1 2019 due to rising heifer and young bull production. Low factory prices continue to challenge the profitability of this sector. In 2019, as a result of a fall in demand, prices were down in the region of 5% (see graph above 2013-2019). It is clear from the current action being taken by farmers, that the sector has now reached crisis point. Few young farmers are entering the sector and many are leaving, due to the lack of profitability. The outlook remains negative and continued volatility is likely.



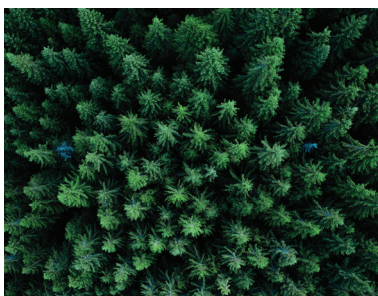
Tillage

In Ireland, favourable growing conditions to mid July, ensured that yields in 2019 were well ahead of 2018 - up to 20% increases recorded in total cereal tonnage, compared to 2018, from 1.8million tonne to 2.2million tonne. This should not be taken out of context however, as the drought in 2018 reduced output significantly. Prices being quoted currently represent a 30% decrease on the 2018 harvest prices. Production costs in 2019 are likely to be about 3% higher than in 2018. The increase in cereal yields in 2019 is unlikely to be sufficient enough to compensate for the decrease in cereal and straw prices. Therefore, output value per hectare will be reduced on the 2018 level. With costs increasing by 3%, it is estimated that average income on specialist tillage farms in 2019 will be down about 20% on 2018 figure. Winter crop planting is down up to 50% in many areas for wheat, barley and oats as a result of the excessive rainfall experienced in Q4 2019.



Sheep

Irish sheep slaughter was 5-6% lower in 2019 compared to 2018. Lamb prices were up to 7% lower compared to 2018. Costs of production on Irish sheep farms declined by 3% in 2019, due to lower expenditure on purchased feed. Increased prices for some inputs will partially mitigate the impact of lower feed use on total costs. The forecast reduction in costs in 2019 is insufficient to offset the negative impact of lower output prices on gross margins.



Forestry

Currently, 11% of the total land area in Ireland is under forestry. This is the highest it has been for 350 years. Demand throughout the year remained steady with average prices at the €5,000 per acre level however, this figure can vary significantly depending on the age of the plantation, tree type and accessibility. Forestry companies still remain the biggest market for large quality forestry holdings.



AROUND THE PROVINCES – THE EXPERT'S VIEW

MUNSTER

TOM CROSSE FIPAV - GVM AUCTIONEERS, LIMERICK (CHAIR IPAV AGRICULTURAL COMMITTEE)

Tom found that spring and early summer were positive with good levels of sales however, this was subsequently tempered by a softening in the market for the second half of 2019. Primary demand came from large dairy operations. A common thread across the country is the move towards long term leasing. Prices of up €300 per acre for quality land were achieved. The big incentive for young farmers is not having to finance the purchase of the land. Overall volumes of land sales were up 10% in the year. Notable prices achieved were €23,000 per acre for a small holding in Adare, a very popular location. A plot of quality forestry achieved in the region of €5,000 per acre. Tom has real concerns regarding the recent increase in stamp duty to 7.5%, in the 2020 Budget. He believes this is excessive and will place undue pressure on land prices.

JOHN HODNETT MIPAV - HODNETT FORDE PROPERTY SERVICES, CLONAKILTY, CO. CORK

2019 was a year where demand remained strong in his area. Due to dairying being the predominant land use, prices were not adversely affected by the beef crisis. Values for grassland ranged from approximately €12,000 per acre for a sub 50 acre plot, with smaller plots (10 -15 acres) in the region, securing €20-22,000 per acre. John believes the key to the market holding up in West Cork is the price of milk, which has broadly held up over the last 12 months. In relation to forestry land, a very large holding in excess of 300 acres secured €2,500 per acre while smaller holdings (sub 100 acres) secured up to €3,500 per acre. Demand is strong for forestry however, environmental issues and onerous regulations are complicating matters. John has seen a strong demand from part time farmers for smaller holdings, up to 30 acres.

MICHAEL BRADY MIPAV - BRADY GROUP, CORK

According to Michael, the supply of farmland was down in 2019 however, values broadly held up. He is clear in his view that the root cause of market issues were, as a result of Brexit, with people simply holding off. He doesn't expect to see significant changes in land values in 2020 however, he does see supply improving, as things become a little clearer across the water.

In relation to lettings, he is seeing good demand with prices for dairying grazing land as high as €375 per acre and prices for out farms ranging from €225-€275 per acre.

LEINSTER

STEPHEN BARRY MIPAV - RAYMOND POTTERTON AUCTIONEERS, NAVAN, CO MEATH

Stephen's view is that supply has been a real issue in the area, during the year. 'The further north of Navan you travel, the more limited the supply. Prices for marginal lands have slipped back. There remains a strong demand for large quality holdings in excess of 100 acres. This demand is coming from farmers from outside the general area. Local demand is only seen for lots of 40 acres or less. The number of long leases has continued to increase in the counties of Meath, Westmeath & Cavan and is adversely affecting the supply of lands on the open market. The beef crisis is reducing demand from suckler farmers. Brexit has had a paralysing effect, the closer you move to the border, which has to be expected'. Stephen fears that a further extension to the 31st January deadline in relation to Brexit, may simply extend the period of hesitancy, delivering a knock on effect.

EAMON O'FLAHERTY FIPAV - SHERRY FITZGERALD BRADY O'FLAHERTY, MAYNOOTH, CO. KILDARE

Eamon has seen a significant reduction in the amount of transactions over the last 12 months, primarily as a result of the uncertainty created by Brexit. He anticipates an increase in the amount of farmland coming to market in the first half of 2020, as a result. He does not anticipate a significant change in land values in his region. The average price currently stands at €15,000 per acre however depending on the size of the plot and with local interest, this could reach as high as €25,000 per acre.

'As long as beef prices remain at their current levels, it is going to be totally unrealistic for any beef / suckler farmer to be buying land in the coming years.

The bloodstock industry and the hobby farmer are underpinning the market in this region and the only real farmers buying ground in this part of the country are tillage men, who have had their own challenges this autumn with difficult weather etc.'



THE AGENT'S VIEW (CONTD)

LEINSTER (contd)

DAVID MC DONNELL FIPAV - PROPERTY PARTNERS MCDONNELL & CO, MULLINGAR, CO. WESTMEATH (PRESIDENT IPAV)

David Mc Donnell, current President of IPAV, has seen a softening of the market in 2019, with a reduction in prices achieved of up to 10%. 'A quality piece of farming land will secure up to €10,000 per acre, where there are local or dairy interests, alternatively where proximity to a town may offer site potential. Standard prices for larger parcels of land, 50 acres plus, achieved €5,000-€6,000 per acre'. He noted a large number of sales transacted were probate related.

David still sees a big interest from farmers wanting to convert to dairying, despite the level of investment required. He believes a correction to milk prices would have a detrimental effect on demand from the dairy sector. 'Banks are not keen to lend unless there is sufficient security elsewhere in the portfolio'.

'Beef outlook is very uncertain, due to factory prices and the whole EU attitude to carbon emitting enterprises is becoming much more intense'.

David has not seen any significant change in prices being achieved for lettings, ranging from €100 per acre for rough grazing up to €200 per acre for fresh reseeded ground, with an overall average price of €160 per acre being achieved.

CONNAUGHT

GERRY COFFEY MIPAV - AUCTIONEER VALUER & ESTATE AGENT, WILLIAMSTOWN, CO. GALWAY

'Prices in the first half of the year were stronger, but demand in the second half fell off significantly. Forestry is still providing a floor under prices. Average farmland is securing up to €5,000 per acre and better quality lands €6,000-€9,000 per acre'.

Taking on board recent comments from farmers in his region regarding the recent protests and the potential effect of Brexit on beef prices, Gerry believes many more may consider getting out of farming altogether through disposal, long leasing or forestry. The current age profile of active farmers is a significant factor also.

'As in other years, prices held firm for land lettings in spring 2019. More farmers entered long term leases and some held onto lands, as they believed 2019 may be a reference year for CAP.' I believe more land will become available in 2020, but it is difficult to see prices increasing'.

JOHN EARLEY FIPAV - PROPERTY PARTNERS EARLEY, THE SQUARE, ROSCOMMON.

According to John 'Our firm offered approximately 40 farms to the market in 2019, both for farming and forestry. Demand was strong especially for smaller lots i.e. 10-50 acres. Local interest was the main driver here. A number of larger farms changed hands during the year and we have an exceptionally strong demand from the dairying sector for large quality farms, 200-300 acres. Demand weakened in the second half of the year, due to uncertainty over Brexit, weak beef prices, and the increase in stamp duty. Despite this, a number of deals were agreed. Prices achieved for good quality lands were €7,000-€8,000 per acre, with lesser quality ground selling from €5,000 per acre. Going forward, I see land maintaining its value, due to its natural solid investment quality. The current tax breaks available to farmers through leasing, can secure tax free returns of up to 3-4% per annum, far outstripping return for money deposited in the bank.

Forestry demand was very strong with prices from €4,500 per acre upwards.

John believes that beef prices will strengthen in early 2020, assisted by new market demand from China.

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

Karl believes that interest for land predominantly comes from outside his general area, unless it is an adjoining owner. If the value of the holding is in excess of €150,000, it will appeal mostly to outside interests. Usually, prices range from €5,500-€6,000 per acre.

Supply is down somewhat from 2018. Consistent with some of his colleagues, probate sales were common in 2019. This, he believes, will become more common, as fewer family members are interested in continuing to work the land or to return to their farming roots.

'A common theme is that prices achieved are much the same as previous years. Securing finance is the major problem. Furthermore, unless you are involved in large scale dairying, it is virtually impossible to pay yourself a wage.

The older generation are keen to buy land but cannot afford to. The flip side to this, is where the younger generation have the means to buy, but are uninterested in purchasing land'.



THE AGENT'S VIEW (CONTD)

ULSTER

KEITH ANDERSON FIPAV - ANDERSON AUCTIONEERS, DONEGAL TOWN, CO. DONEGAL

Keith found that overall demand for farms decreased in 2019. 'More moderate grazing land is more difficult to sell. Active farmers wait for good quality parcels or smaller acreages. Farmers in their late 50's and 60's are not purchasing for their sons, as the younger generation is choosing other careers. Running costs and onerous regulation are forcing young farmers to seek employment elsewhere. Larger farmers are expanding their acreage. Smaller farmers cannot compete.

Keith is now finding that marginal lands are proving unattractive to all farmers. This was not always the case.

PETER MURTAGH FIPAV - CHARTERED SURVEYORS AUCTIONEERS & AGENTS, BAILIEBOROUGH, CO. CAVAN

Looking forward, Peter believes that land prices will hold at their present level over the coming 12 months. 'Brexit will get solved. We will have a new government in the spring. Teagasc has recently forecast that farm incomes will increase by around 7 % in 2020'. Looking back, he saw little change in values over the past 12 months, with lack of supply being a key factor.

'We had a few sales in the springtime including two residential holdings that were offered in lots. Ironically these were two adjoining holdings, one of which had been let for years. A 35 acres holding with a poor residence and out offices, averaged out at €8,800 per acre. A neighbouring 46.5 acre holding with an old, but better quality residence and cubicle sheds, averaged out at €9,032 per acre.'

OUTLOOK

With 2020 now upon us, what are the challenges, impediments, and factors that are likely to affect land prices and industry sentiment. As is the norm, there are issues within our control and those outside our control. Integral to the domestic market is maintaining the current price of milk, but equally as important is the progress that needs to be made in addressing the needs of the beef farmer. The situation is untenable. The model is simply not profitable in its current form. The beef sector in general and the land required for this purpose, play hugely important roles in the industry in this country. It is essential that their issues are addressed. Beef must be supplied from somewhere and if the crisis is not resolved it will affect the superior quality of the product and jeopardise the industry itself.

Factors outside our control remain equally as important.

Brexit still offers much uncertainty. While the 'will the UK leave' question has been replaced by 'when will the UK leave'. Climate change and carbon emissions are ever increasing international concerns. The agricultural sector in general, seems to have become somewhat of a target in this area. This would appear to be grossly overplayed, when compared with other industries like aviation and manufacturing. The fact remains that our climate is changing every year, with more common, non typical weather events. The high rainfall experienced in late 2019 and the very mild weather over the Christmas break are two very recent examples of this.

Inevitably, there will be surprises along the way, unforeseen economic and physical events will occur. 2020 will bring a new government to this country. With the current state of the body politic in Ireland, there is no possible way to anticipate how this will transpire.

One of the key trends evident since the commencement of this report back in 2016 is the clear shift by younger farmers towards long term leasing. In many cases banks are simply not prepared to fund land purchase, based on value alone. Return is seen as an important factor. For the young farmer, the real attractions are, minimal upfront outlay required, and the long lease provides them with the incentive to improve the holding and reap the benefits, in the medium term. From the landowners perspective, it is proving really attractive also, as in many cases, the age profile is 60+, and there are no family members available or interested in running the farm. The land stays in the same ownership and the landowner receives an income in a tax efficient manner.



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