



IPAV AGRICULTURE REPORT 2017

"The Voice of Auctioneers & Valuers In Ireland"

IPAV AGRICULTURAL REPORT, MAY 2017

Welcome to IPAV's second farm report.

Of all sectors of our society and economy, farming is probably the one that experiences volatility most frequently. It's the one where the global and the local are most closely aligned and where the vagaries of world markets can most immediately impact farmers' pockets.

This is understood innately by IPAV auctioneers and valuers, very many of whom have themselves been raised on Irish farms.

Brexit is but the latest incarnation giving rise to uncertainty, and we're going to have to live with it for some considerable time to come. The UK's contribution to the Common Agriculture Policy budget will be but one of the very contentious issues to be negotiated. The impact of an undoubtedly lower CAP budget on Irish farms remains to be seen, as does the impact for Ireland of losing a very close ally at the European negotiating table. Because of Brexit, the new European Agricultural CAP budget cannot take a hit from an Irish farmer's perspective.

Despite Brexit, economic recovery continues at home, well outstripping the euro area as a whole. The European Commission's latest forecast predicts Irish GDP will grow by 4% this year and 3.6pc in 2018, far above the predicted euro area GDP growth rates of 1.7% and 1.8% respectively.

Nonetheless, we cannot forget that many Irish farms continue to struggle with legacy issues arising from the financial crash. The repossession of indebted farms is a bigger issue now than ever. Our Institute will continue to prevail upon the political system the need for fairer and more equitable solutions at farm level.

For those who want to invest in or purchase farms, access to finance at reasonable rates of interest continues to be a major issue. While the Strategic Banking Corporation of Ireland's special hardship cash flow loan scheme for farmers with an interest rate of just 2.9% is very welcome, we need more of this kind of initiative.

IPAV auctioneers and valuers look forward to continuing to work closely with Irish farmers. Their experience, knowledge and expertise are central to achieving the goals of those who use their services for whom they are legally obliged to do their very best.

Mr. Pat Davitt
CEO

INTRODUCTION

To excuse a pun, the Irish agricultural sector has been showing some evidence of green shoots in the first quarter of 2017. Values by and large have remained steady, with small increases in some sectors. This follows on from two years of downward pressure. 2015 was by far the more challenging year, with decreases of 8 - 10%. The decreases were more muted in 2016 with falls of 2 - 3% across the sector.

The Irish agricultural sector currently finds itself at somewhat of a crossroads. These are uncertain times and it is likely that this will continue to be the case until the end of 2017, primarily as a result of Brexit. Until the exit terms are finalised, uncertainty will reign across all markets. The unlikely decision by the U.K. to exit the EU has potential repercussions for the Irish agricultural sector. To put it into context, 23.5% of our total national exports in 2016 were to the UK, while 51% of our total agricultural exports went across the water. The total value of these exports was €11.15 billion. There is no real upside to Brexit and it is simply a case of damage limitation. However, a potential positive in this situation is Phil Hogan's current role as the EU Minister for Agriculture. His view is that the two biggest challenges will be the establishment and retention of a free trade agreement between the two countries, and how the reduced CAP contributions from the UK as a result of Brexit, will be clawed back. He remains optimistic that a trade agreement can be reached and the shortfall can be made up by the remaining countries.

Milk prices have played a key role in the farming sector in recent years. With the abolition of quotas in 2015, prices fell to an eight-year low as the sector grappled with this change. Prices have rebounded over the last eight months and the outlook is now positive.

INTRODUCTION (CONTD)

It is important to remember that the Irish economic fundamentals remain very positive. We have the fastest expanding economy in the EU, with increases in GDP of 4% expected as opposed to an EU average of 1.7%. From an agricultural perspective, we are ideally placed considering our demography, our climate and our ability to produce quality products of international demand.

RECENT EXPERIENCES

In 2016, average land values fell by 2-3%, compared to falls in excess of 8% nationally in 2015. The key drivers of these falls were the impending abolition of milk quotas on 31st March 2015, access to finance and in more recent times, the uncertainty created as a result of the Brexit vote. This resulted in an initial fall in sterling of up to 20%, creating real pressures on the competitiveness of our exports to the UK. Some of this fall has been regained.

We are now 10 years on from the Irish property crash. Commencing in 2007, it was closely followed by the global financial crisis in 2008 which simply fuelled the fire. According to the Irish Farmer's Journal Annual Report, 2017, average prices for quality farm land had reached in excess of €23,000 per acre in 2006. By 2011, these values had fallen by over 65% to €8,700 per acre, which was a similar fall to other assets classes in Ireland. The price of land was the first sector of the property market to rebound, commencing in 2011. Values had increased by 15% by the end of 2014. Unfortunately, the following year prices fell by in excess of 8% and this was followed by a further but less significant fall of between 2-3% in 2016.

To illustrate how heated the land market became in this country, average land values today are over 60% below their peak, while most other property assets have returned to within 30-35% of their peak values. What does this tell us about the nature of land prices? History has shown that land prices are generally susceptible to far greater fluctuations during a property cycle and will be the first to fall and the first to rise.

OUTLOOK

It is very difficult to predict the direction of values for the rest of 2017 and into 2018. Sentiment has improved somewhat. The weather to date for 2017 has been favourable with average rainfall and dry spells experienced in the first five months of the year, which have resulted in unlikely forest fires in some western counties during the month of May.

The young farmer of today takes a more commercial view of farming, with little or no emotion involved. Excel sheets, projections and yields are of more immediate concern than the ownership of lands. An interesting development has been the move towards the long-term leasing of land, allowing available capital to be invested into the operation. This is in tandem with the ever evolving agri-tech sector, which is delivering new and innovative tools, thus improving the overall efficiency of the typical farm.

Today, leases by and large last for a term of 5-15 years, which provides security of tenure for farmers. It is also proving attractive to landowners as they can secure a tax-free income. Average prices achieved currently for long leases are in the €250 per acre range, with some achieving up to €300. Prices achieved are location-dependent, with quality of land being a key determinant. Milk prices have increased nationally by 40% in only 8 months. (22-31 cent per litre). In early 2016, many dairy farmers were assessing the viability of their operation. Others had invested significantly in their holdings, in anticipation of the ending of quotas. The outlook in this sector is now somewhat more positive, with further small gains anticipated in 2017. The additional income will take some time to filter through. It has allowed some dairy farmers to increase production.

The outlook for the beef sector is also positive. A key advantage for Ireland is that both U.K. and international beef prices have strengthened in recent months, and are slightly higher on this time last year (May 2016). At worst, a status quo is expected over the rest of the year, with further increases possible.

Grain prices continue to be challenged internationally. Over-supply continues to be an issue globally. An increase in prices is not anticipated in the short-to-medium term, either domestically or globally. Tillage currently accounts for 15% of land use in Ireland.

Access to finance for the purchase of land remains a real challenge and this will continue to be the case. While banks are reluctant to fund the purchase of lands, stocking loans are more freely available.

Brexit will play a significant role in determining prices over the next two years. The Irish economy is, however, performing well. Unemployment has fallen from 15% in 2010 to 6.2% today. The numbers employed in agriculture remain steady at 8.4%. It is essential that both the government and our representatives in Europe are mindful of our commitments to the EU, while not losing sight of our relationship with our nearest neighbour and most important trading partner.

An essential requirement for the industry is the retention of a soft border. This is vital. The re-introduction of a hard border would have a profound effect on land values in the border counties. According to Sherry Fitzgerald: "The agricultural land market enjoyed a positive opening quarter to 2017 nationally, following a full year of deflation through 2016." According to their report, the border counties and the south-east saw the greatest increases in Q1 of 2017. 25% of agents reported increases. This was following a decrease in values in 2016 as a result of the uncertainty created by the Brexit vote.

THE AGENT'S VIEW

ULSTER

KEITH ANDERSON, ANDERSON AUCTIONEERS, DONEGAL

Keith Anderson reiterated the fact that Donegal is very much a county of two halves, with a wide gap in prices being achieved as a result of differing land quality. The market has been quiet in 2017 to date, and this is very much following on from the theme in 2016. Demand is limited, primarily for smaller holdings of up to 30 acres, achieving up to €12,000 per acre. Young farmers are continuing to leave the sector.

PETER MURTAGH, MURTAGH ESTATE AGENTS, BAILIEBOROUGH, CO. CAVAN

According to Peter: "A little flurry of activity can occur this time of year with the deadline day for Basic Farm Payments and Entitlements applications in May. In south Ulster and north Leinster, no noticeable change in values has been seen since January, except an uplift for marginal land suitable for forestry. Prices being achieved are between €8,000-€10,000 for small parcels of quality land."

LEINSTER

EAMON O'FLAHERTY, PROPERTY PARTNERS BRADY, MAYNOOTH, CO. KILDARE.

According to Eamon, former President of IPAV, based in Co. Kildare. "The market in 2017 is showing similar traits to 2016. Demand is primarily coming from hobby farmers or bloodstock enterprises. Access to finance remains a significant problem. Top quality smaller parcels will command up to €15,000 per acre with average values in the region of €10-12,000 per acre."

ALAN BRACKEN, SF DAVITT & DAVITT, MULLINGAR, CO. WESTMEATH

"Prices in Westmeath are achieving up to €10,000 per acre for quality lands. An interesting recent development is that Northern based farmers are now looking at purchasing dairy farms in the south as a result of the uncertainty created by Brexit. Finance to purchase land is not available. It is possible to secure stocking loans, however." He is also of the view that young farmers entering the sector take a much more commercial view of the business and are less emotive. Therefore ownership of land is not the priority.

MUNSTER

BRIAN GLEESON, GLEESON AUCTIONEERS, DUNGARVAN, CO WATERFORD

"Supply is the real challenge in this part of the country, with minimal amounts of stock coming to market. This is likely to be the case for the foreseeable future. Prices for quality land will make €12,000-€14,000 per acre for smaller plots."

THE AGENT'S VIEW (CONTD)

MICHAEL BRADY, BRADY GROUP, CORK

Michael is seeing a significant increase in demand and supply this year. "Prices are static in all areas except forestry, which have seen upward movement. However, it is very dependent on location." According to Michael: "2016 was somewhat of a non-event due to a combination of poor milk prices and the uncertainty created by Brexit." Values for quality farmland are in the €10-€15,000 range with higher figures being achieved for smaller parcels.

JOHN HODNETT, HODNETT FORDE, CLONAKILTY, CO. CORK

John Hodnett who is based in west Cork confirms prices for quality land can reach €15,000 per acre. "The supply of lands coming for sale is down as a result of landowners agreeing long leases with farmers. Priced achieved are up to €320 per acre. The market saw an uplift in Autumn 2016 as milk prices began to rise." He also maintains that Brexit is not a significant factor in his area.

TOM CROSSE, GVM AUCTIONEERS, LIMERICK.

Tom Crosse, based in Limerick, says: "There has been a big fall-off in the amount of land coming to the market. Many landowners are opting for long-term leasing, thus availing of tax breaks." In his region, prices are holding or maybe slightly ahead of 2016 figures. Young farmers are opting for long-term leasing rather than buying, using capital to develop facilities and increase stock numbers. Average prices in Limerick for 2016 were €8,500 per acre. Demand for quality land is up, and for marginal land is down (except forestry).

DERMOT POWER, SF POWER & WALSH, CLONMEL, CO TIPPERARY.

Dermot see a wide range of prices achieved in their core markets of South Tipperary, East Waterford & South Kilkenny. "Average prices for quality land is approximately €10,000 per acre in most areas however, due to the strength of the bloodstock sector in South Tipperary, values can reach up to €15,000.

DAVID CONSIDINE, PAT CONSIDINE AUCTIONEERS, KILRUSH, CO. CLARE.

David considers the current market similar to that of 2016 with little change in value or supply. Prices in west Clare can reach a maximum of €8,000 per acre. The average price for forestry is €4,000 per acre. He also witnessed a lift in confidence in the overall sector, as milk prices began to rise.

CONNAUGHT

GERRY COFFEY, GERRY COFFEY AUCTIONEER, WILLIAMSTOWN, CO. GALWAY.

Gerry Coffey is based in Co. Galway. He believes that the uncertainty caused by Brexit along with farmers' long-term concerns for commodity prices are proving negative, he sees strong demand for forestry on marginal lands, which is pushing up prices for young farmers starting out. The popularity of long-term leases is significant. "This insures that lands will not come to market for some time. Forestry land is making €4,000 per acre with better quality grasslands making up to €8,000 per acre."

JOHN EARLEY, PROPERTY PARTNERS EARLEY, ROSCOMMON.

John reports a pickup in the market since autumn of 2016. He sees a high demand for marginal lands of over 40 acres for forestry, with prices achieved in the €4,000-€5,000 bracket. Top quality small holdings will achieve up to €10,000 per acre. He believes that the stamp duty rate at 2% is proving helpful and that the incentive for investors to let lands for 5-20 years tax-free is also proving very attractive.

COLM FARRELL, COLM FARRELL AUCTIONEERS, GORT, CO. GALWAY.

Colm is seeing a market which is sluggish from both a demand and supply side. According to him, the Single Farm Payments and GLAS payments are the main factors allowing many small farmers to remain in the sector. The average age of the Irish farmer is increasing all of the time with less and less of the younger generation entering the sector.

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

Karl is finding the market challenging once plot size exceed 10 acres. Values up to this point are up to €8,000 per acre. For larger plots, the figure of €6,000 is more achievable. One area which is performing strongly is forestry, with prices of up to €5,000 per acre being achieved. This is not far off the price of good farming land. "Proximity to an urban centre is important", he believes.

TRENDS

Since the market began to recover, prices have remained below €10,000 per acre which has become somewhat of a benchmark. Once this level is exceeded it is quite possible that prices will move forward for some time. The immediate signs are that it is unlikely to happen in the short term.

In last years' review we highlighted the fact that younger farmers coming through were in some instances more interested in potential yields and the quality of the land as opposed to proximity to home. This continues to be the case as farmers strive to become ever more efficient, more intensive thus increasing profitability. The relatively new phenomenon of farmers migrating to other parts of the country in search of opportunity looks set to continue. This is consistent with a global theme, the world is getting smaller as a result of better technology, accessibility and the role of the internet.

2016 was a challenging year for many farmers, as a result of adverse weather conditions. Particular areas of the midlands and west of the country were particularly unlucky with many 1,000's of acres under water, thus rendering them redundant for this year also. As highlighted above, 2017 to date has been reasonably dry with rainfall levels average for this time of year.

Forestry continues to be popular with the investor. Following on from last year, investors are increasingly planting on marginal lands traditionally used for grazing. Accessibility to roads is a priority. This is the one sector of the market which continues to attract new entrants, and as a result, values continue to rise to bringing them in line with prices for agricultural lands, in some locations.

SUMMARY

The land market continues in a reasonably healthy state. Since the turn of the year, activity is slightly up on 2016 which by and large was a year of uncertainty. Sentiment is positive, however there are factors outside our control which will have a clear impact on the industry and land values over the coming years. Only 0.5% of Irish agricultural land was sold in 2016. This is an extremely low figure. As a result, with the limited supply of stock currently available, any significant downward movement in value is unlikely in the short term. If 2017 continues the trend of Q1, lower single digit increases are likely for the rest of the year.

If you are thinking of selling or you need an accurate valuation of your principal asset, why not contact your local IPAV estate agent? With over 1,000 members nationally, we provide land experts who have working in the sector locally, for decades.

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