AGRIFRANCE
RURAL REPORT / **2019**

STRUTT & PARKER

THE RURAL LAND MARKET IN GREAT BRITAIN

AGRIFRANCE
BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

CONTENTS

P. 2 FOCUS
The rural land market
in Great Britain in 2018

P. 20 COMPARISON
Key figures for the United
Kingdom and France

P. 25 OVERVIEW
The rural land market
in France in 2018

FORWARD

This year, we decided to focus on the British rural land market, with a valuable contribution from Strutt & Parker in London.

Despite Brexit negotiations and the complex environment, rural land prices have held up remarkably well. Farmland in Britain remains expensive, selling for more than €20,000 per hectare on average or two to three times dearer than in France. Forests are extremely sought-after, valued at around €10,000 per hectare. Owing to the government's ambitious forestry policy, timber commands extremely high prices. Finally, vineyards are less numerous and less renowned than in France; that said they have generated enthusiasm of late.

Interest in rural land on both sides of the Channel is attributable to various factors (small market, quality land, strong demand from professionals and non-professionals). Furthermore, rural land is considered as an asset for diversification and transmission purposes.

In the second part of this report, we present an overview of the French rural land market. With an estimated agricultural production of €75.2 billion in 2018, France secures its European leadership position in several key segments, including cereals, viticulture, beef, dairy products and fruit & vegetables. The situation remains challenging for livestock production, due to market conditions and poor weather. Grain harvests were affected by a very mixed climate last year although prices gradually picked up. In viticulture, producers benefited from an autumn heatwave. Last year was a good quality grape harvest in most regions and volumes increased. In the forestry industry, prices rose particularly in oak despite substantial volumes sold. Against this general backdrop, French rural land continues to increase in value. Nevertheless, the agri-food sector will continue to face many challenges (economic, environmental, social and technological).

We hope you find this report interesting and take as much pleasure in reading it as we had in writing it.

Enjoy!

Benoît Léchenault
Head of Agrifrance
BNP Paribas Property SNC

FOCUS

The rural land market in Great Britain in 2018

STRUTT & PARKER

Agrifrance would like to thank Strutt & Parker Group and Taittinger Group for their contribution to this report on the rural land market in Great Britain.

Strutt & Parker, which has offered residential and commercial real estate products and services in Great Britain for more than 130 years, joined BNP Paribas Real Estate in October 2017.

Strutt & Parker was founded by two farmer friends: Edward Strutt and Charles Parker. Since its creation, Strutt & Parker has been active in the rural land markets in England and Scotland. It boasts a large multi-disciplinary team and a network of 67 branches. Large farming estates, production forests, prestigious residential properties, and more recently vineyards, are familiar territory to Strutt & Parker experts.

P. 5
The farmland market in England

P. 11
The farmland market in Scotland

P. 13
The forestry market in Great Britain

P. 16
English wine: A bright future!

P. 17
Brexit

P. 18
Around the world

P. 19
Taxation on rural land in the United Kingdom

The farmland market in England

Non-farming buyers set the pace in the English farmland market

The farmland market has proved more resilient than many might have predicted considering the Brexit-related uncertainties and practical challenges posed by the weather over the past 18 months.

Despite an increase in the supply of farmland in the market, average prices have remained stable. The average price of arable land sold in 2018 was €26,710/hectare, which is 2% higher than the average in 2017. This is only a little below the average for the past five years, but a drop of €3,690/ha versus the peak record seen in 2014-2015.

The average for pasture was €21,880/hectare, up 2% on the average in 2017.

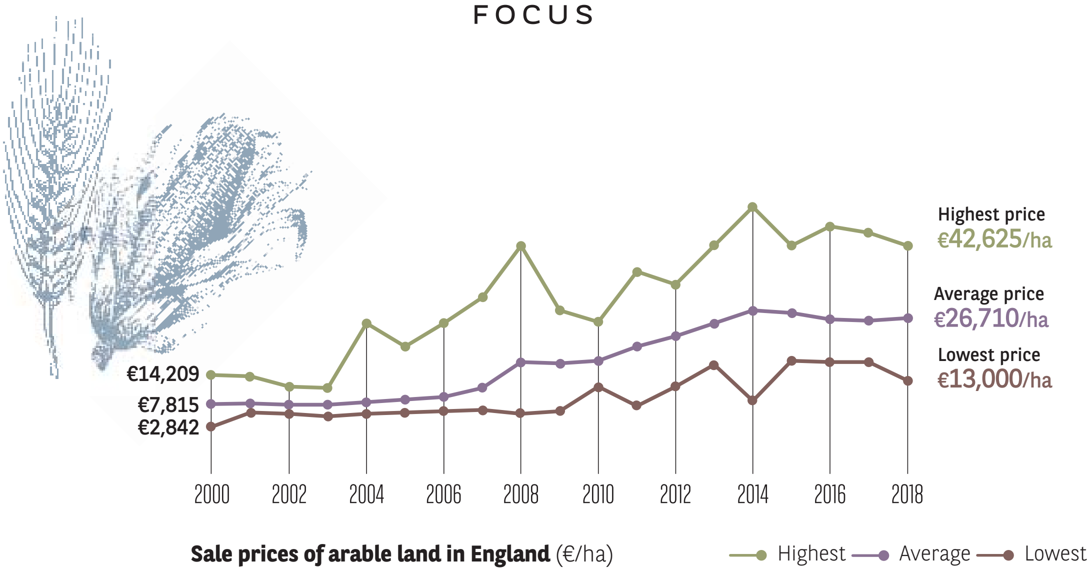
Of course Brexit and the question of the future of agriculture in the UK are on everyone's lips. The agriculture bill, published last September, has not completely reassured the rural world. The British government has confirmed its intention to maintain agricultural aid until 2028, certainly with a gradual decline over seven years. Obviously, this announcement has had a negative impact. Faced with this level of uncertainty about farm income, the percentage of land purchased by farmers is decreasing. This lack of confidence within the agricultural sector is also reflected in the decrease in the volume of loans for land purchases. However, agricultural profitability is not the only factor that determines the price of land in the UK. Indeed, it is not only farmers who buy land. Over the past two years, non-farmers have played an increasingly important role in the most popular locations where there is already strong demand. Diversification and buying a fabulous estate for pleasure purposes are their main objectives. Such investors are attracted to tangible assets as they see rural land as a safe-haven investment, without return being their key priority.

So there is a wide range of prices, depending on buyer types and the location of estates. Looking ahead, assuming there are no big changes in tax regimes, the price range will widen.

CONVERSION TABLE

£1 = €1.15
1 acre = 0.404686 ha

£/acre	€/ha
3,000	8,525
4,000	11,367
5,000	14,209
6,000	17,050
7,000	19,892
8,000	22,734
9,000	25,575
10,000	28,417
11,000	31,259
12,000	34,100
13,000	36,942
14,000	39,784
15,000	42,626
16,000	45,467
17,000	48,309



Sale prices of arable land in England (€/ha)

Sale prices of grassland in England (€/ha)

Amount of farmland marketed

There was an increase in the volume of farmland publicly marketed in 2018 — almost a third more than in 2017. It is only the second time in a decade that this figure has been more than 48,470 hectares. The main reason for this increase was a rise in the number of farms over 400 hectares put on the market. Collectively, these larger farms accounted for 14,890 hectares, compared with 5,825 hectares in 2017. Private sales are not included in the figures.

Number of farms marketed

Overall, the total number of farms publicly marketed remains relatively stable (at around 220-230), but the average size of farms being marketed has increased. However, in the context of Brexit, there has been a fall in the amount of land being marketed as people wait to see what happens.

Size of farms: a narrow market for large estates

Most farms for sale are below 200 hectares (83% of total). The strongest demand for farms seems to be those which fall into the intermediary (200-400 hectares) bracket. Only 27 farms between 200 and 400 hectares were marketed, which is about the same as in 2017.

Types of farms

Arable farms accounted for the largest number of farms marketed in 2018. The South-West, East of England and South-East remain the most active regions for farm sales; they are also the most active for private sales. Northern England remains the least active area.

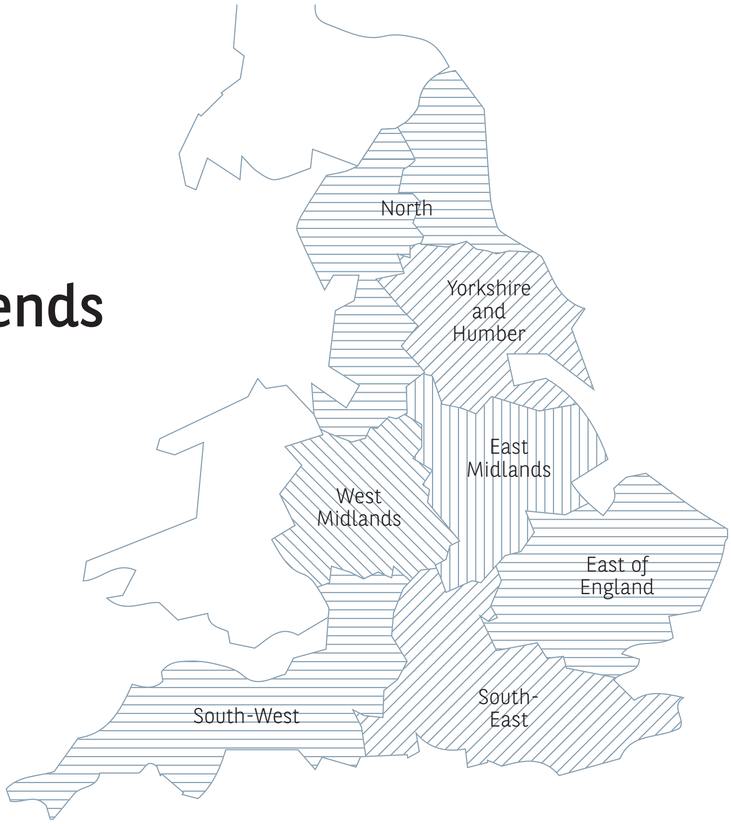
There was a large increase in the number of livestock farms for sale, particularly in the South-East and South-West. Large arable farms, mixed farms and small farms (less than 100 ha) are on the market for above €34,100/ha.

Breakdown of farms sold in 2018 by size

Main buyers from the rural world

Farmers account for approximately 60% of buyers. In spite of the lingering fears about agricultural subsidies after Brexit, farmers continue to invest and remain confident in the future. However, with the likely fall in their income, they are more cautious now and are buying land less and less with loans. Lifestyle buyers, private investors and institutional investors continue to buy around 40% of farms sold.

Regional trends in 2018



Prices in 2018 (€/ha)

Arable
- 25% lowest
- 25% highest

Grassland
- 25% lowest
- 25% highest

North

Arable	17,000 29,830
Grassland	11,360 22,700

Source: Strutt & Parker

"The market is currently best described as cautious. Some farms fly off the shelf, while others stick. There was a significant slowdown in land coming forward which means much of the land currently available is yet to find a buyer. Where land is selling, arable values are typically ranging between €17,000/hectare and €29,830/hectare, with pasture selling for €11,360/hectare to €22,700/hectare."

Will Parry
Strutt & Parker
North

West Midlands

Arable	23,575 32,680
Grassland	21,310 25,000

Source: Strutt & Parker

"Arable land is currently tending to trade between €23,575/hectare and €32,680/hectare. Prices are being supported by the number of rollover purchasers in the region who are looking to reinvest from development deals. They are seeking large blocks of commercial arable ground and do not necessarily need them to be within close proximity to their existing land holdings. Attractive, ring-fenced residential farms in good locations continue to sell well too."

Matthew Sudlow
Strutt & Parker
Central & West Midlands

South-West

Arable	22,000 31,250
Grassland	17,050 25,575

Source: Strutt & Parker

"We have seen an influx of rollover buyers who are on the hunt for commercial farms for tax reasons. Sporting estates are also in demand from non-farming buyers. In terms of demand and price, the polarisation continues. Land is typically selling for its guide price, or close to it, or not selling at all. Arable values are currently ranging from about €22,000/hectare to €31,250/hectare, while grassland is selling for between €17,050/hectare and €25,575/hectare."

Charlie Evans
Strutt & Parker
South-West

East Midlands

Arable	20,600	
	25,575	
Grassland	17,750	
	22,165	

Source: Strutt & Parker

"Tax-driven buyers are generally leading the market in the East Midlands, particularly those who are in funds as a result of selling development land and only have limited time in which they can benefit from rollover relief for Capital Gains Tax purposes. In 2018, there was a continued variance in prices paid across the region with land in popular areas that has a historic lack of supply achieving stronger prices. We have a number of farms coming to the market that should attract both local and national interest."

Sam Holt
Strutt & Parker
East Midlands

East of England

Arable	21,310	
	29,830	
Grassland	N/C	
	N/C	

Source: Strutt & Parker

"2017 saw a fall in the number of farms brought to the market in the East of England. This has helped to keep prices relatively stable, with arable values typically around €21,310/hectare to €29,830/hectare, although demand is more muted than it was at the peak of the market in 2014-2015. Expansion-minded farmers remain key players in the market, along with investors with rollover funds."

Giles Allen
Strutt & Parker
East of England

South-East

Arable	21,132	
	29,830	
Grassland	15,000	
	24,150	

Source: Strutt & Parker

"Demand remains strong for commercial arable ground because of the number of farmers with windfall development funds looking to buy bare land close to their existing units. There is also competition among lifestyle buyers looking for residential farms which might offer a beautiful house surrounded by its own land providing privacy and protection."

Matthew Gibson
Strutt & Parker
South-East

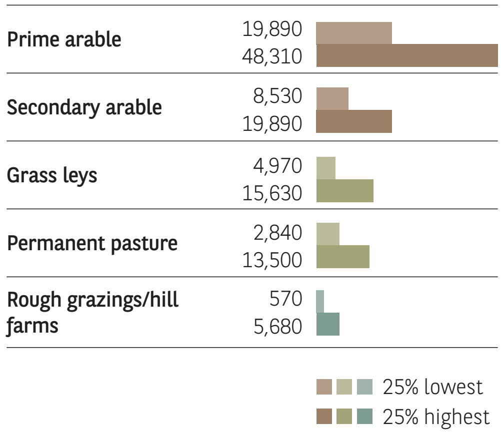
The farmland market in Scotland

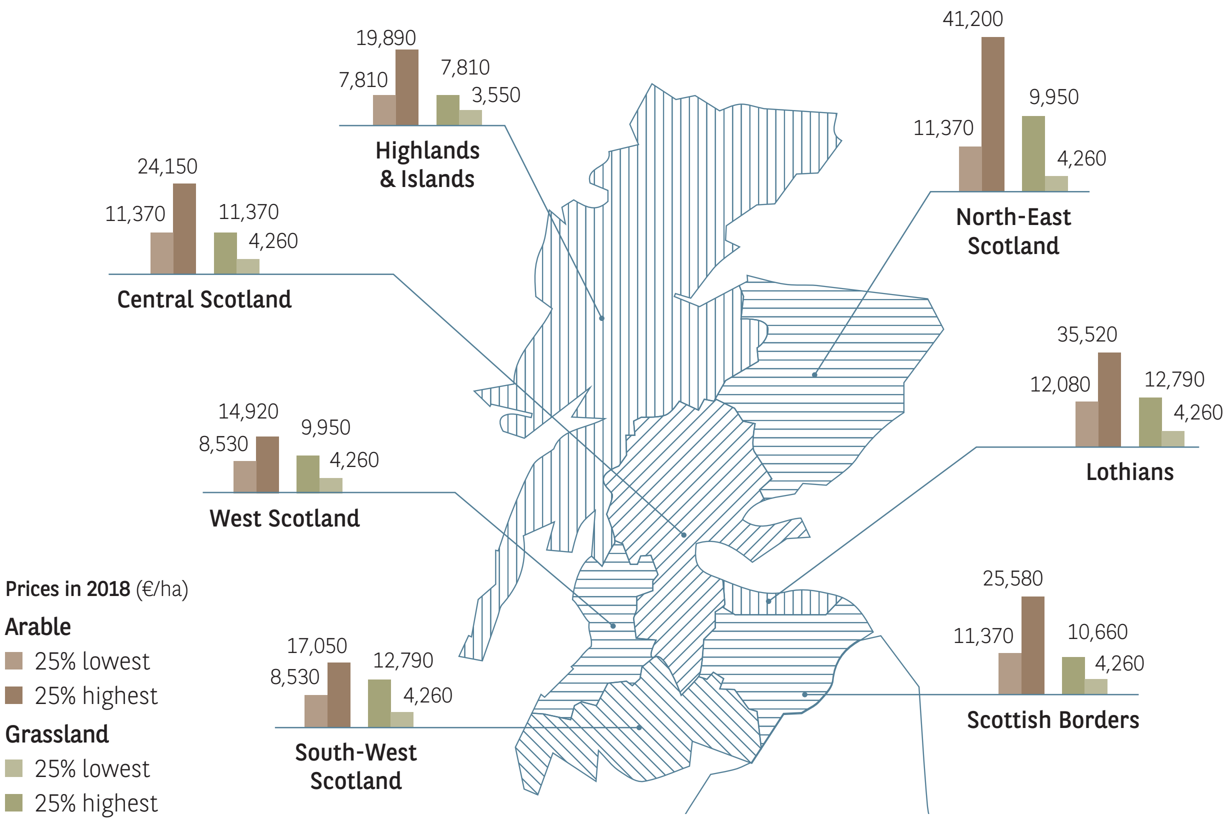
Good market prospects

Scotland's farmland market saw a significant increase in supply in 2018, with more land coming to the market than at any other point in the last ten years. However, while on the whole there was strong demand, meaning land values were largely unchanged, there was a significant variation in the price paid depending on their size and location. Those properties which are particularly sought after continue to include prime arable farms and those with diversified income streams. A development has been the rise in demand for hill farms* and bare land with the potential for afforestation.

The increasing age of farmers and their desire to retire will support supply, and demand will be underpinned by the scarcity of prime land and forestry investment opportunities.

Range of prices in 2018 (€/ha)





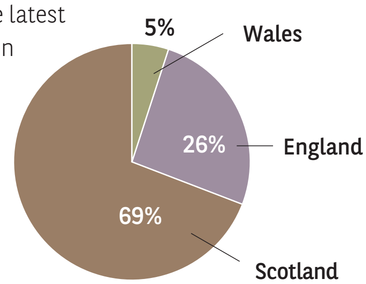
* *Hill farms: farms comprising mainly 'rough hills', usually located in remote areas.*

The forestry market in Great Britain

Forests: an active market at end-2018

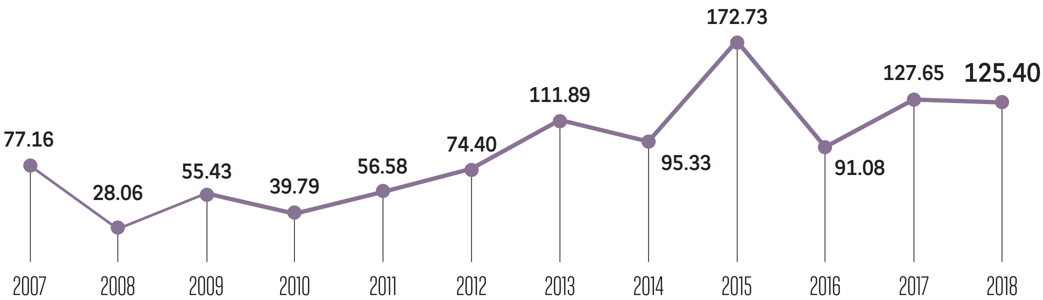
Since 2008, we have seen a rise in forestry sales. There were €125.4 million in transactions in 2018, which is still a slight decline on 2017. In total 57 sales were recorded versus 87 in 2017, so one can presume that the market was generally supported by the rise in average prices. According to the latest forestry index, the return on forest investments in Great Britain exceeds 10%, which partly explains the appetite of numerous investors.

Scotland retained its dominant position, accounting for 69% of forestry sales. England achieved a higher-than-usual position with a 26% market share. As for Wales, whose market usually consists of smaller properties, it accounted for 5% of the market.



Breakdown of recorded sales

Last year some 14,370 gross hectares of forestry were traded including several large estates. In Scotland the sale of Dunderave forest by Inveraray, comprising over 1,000 ha attracted considerable attention from investors and sold quickly above the guide price of €9.2 million. In England, there was substantial interest in the sale of Dipton Woods in Northumberland, which sold considerably above its guide price of €1.84 million.



Evolution of the forest land market in Great Britain by value
(€ millions)

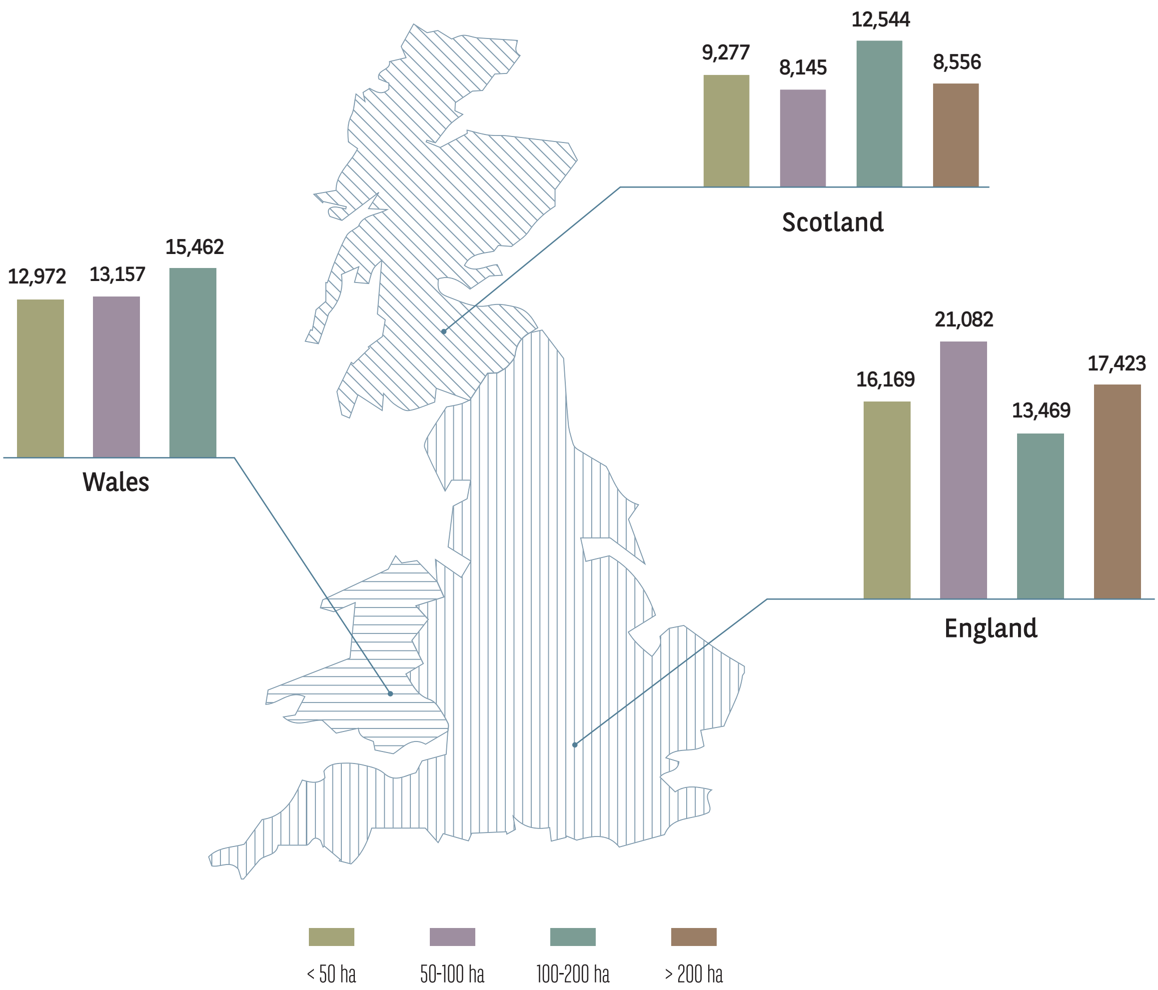
The average size of a property sold last year increased to 196 ha (from 149 ha in 2017) and the average cost of a property is now €2.1 million. The average price per hectare is approximately €10,710. Obviously this average masks large price disparities according to the size of the forest and forestry stocks.

Average prices in Scotland show consistency across all forest size ranges. Some of these higher value properties have additional interests as small estates.

Overall prices in England are higher than in Scotland and can exceed €20,700/ha. Land prices, which are also higher than in Scotland, no doubt push up the price of forests in England.

With average prices in Wales now at around €13,800 per hectare, it is looking rather more expensive than Scotland despite the small sample size.

The very active state of the market last year showed the difficulty that buyers had in determining a bid price. Buyers from outside of Scotland take some time to understand the market in these circumstances.



Average sale price by forest size (€/ha)

Timber market: Strong demand

The past year has seen exceptional opportunities for wood sellers.

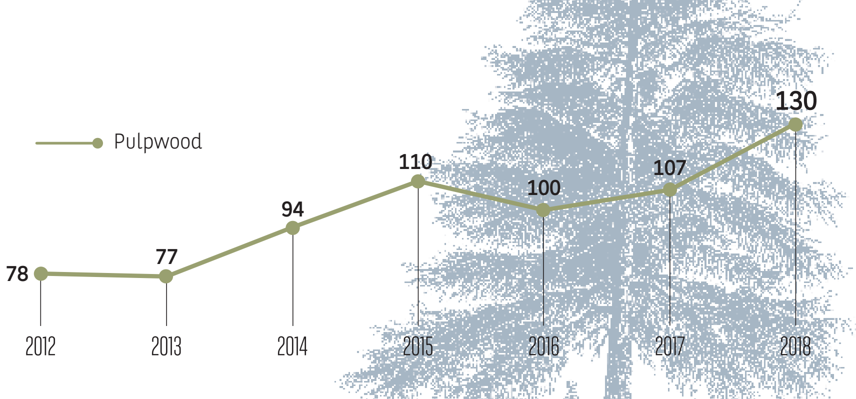
Timber prices have risen at unprecedented rates, with the Forestry Commission's Coniferous Standing Sales Index showing an increase of 28.2% compared with the previous year.

As Britain imports almost 60% of its sawn timber, the weaker pound makes the British sawmilling industry more competitive. There has been a significant increase in demand in industries such as sawmilling and board production as well as in the biomass and renewable energy sector.

Last year a new manufacturing line was officially opened at the Norbord wood panel factory (Highlands) as part of a €109 million investment. That's twice the amount wood processors have been investing every year over the last decade or more in just one project.

During the past seven years, timber production from British forests has remained relatively flat, despite forecasts of increasing production over the next 15-20 years. Demand for roundwood should therefore continue in the medium term.

Brexit and the status of the exchange rate have resulted in the UK becoming a less attractive market for euro-based producers.



Average pulpwood price. Price Indices 2016 = 100

Source: Strutt & Parker

English wine:
A bright future!

Taittinger Champagne invests in Kent

In 2015, Taittinger Champagne became the first French producer to acquire about sixty hectares of land to produce English Sparkling Wine in Kent, near Canterbury. About 20 hectares have been planted with Chardonnay, Pinot Noir and Pinot Meunier vines.

The project is being carried out in partnership with Hatch Mansfield, Taittinger's UK partner. The wine will be called Domaine-Evremond — named after Charles de Saint-Evremond, an epicurean who lived in the 17th century and was exiled in England. He is buried at Westminster Abbey in London.

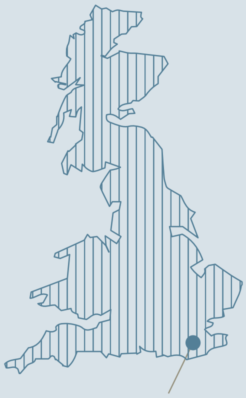
This growth of investment in the UK vineyard market comes at a time when we are witnessing a strong increase in the consumption of sparkling wines in the world and, in particular, in England.

According to the International Organisation of Vine and Wine (OIV), in the last ten years, world wine consumption has increased by 4%, while that of sparkling wines has risen by 30% to 15.4 million hectoliters (about 2.05 billion bottles). This investment is an alternative to the competition of Italian (Prosecco) and Spanish (Cava) sparkling wines.

Land suitable for vine-growing is very scarce on the market and there is a shortage of land for sale. Registered prices exceed the value of farmland, to more than €40,000/ha. Many wine producers prefer to rent land on 30-year leases or enter into a joint venture partnership agreement with the landowner.

Taittinger purchased the Domaine Evremond vineyeard in a place that was little known until now for the quality of its wines. This project contributes to the development of a new wine-growing area and is an important catalyst for the future development of this new tourist site.

At a time when Brexit is threatening the financial support to the rural economy, this project is fundamental to the future of the region.



CHAMPAGNE
TAITTINGER
Reims

"There are beautiful chalky soils in England that can produce a quality sparkling wine."

Pierre-Emmanuel Taittinger
CEO, Taittinger Group

BREXIT

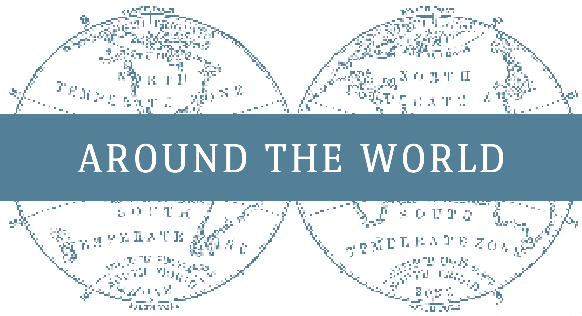
After the Prime Minister's defeat in mid-January, uncertainty dominates the country

All the newspapers published the results of the crucial vote of 15 January 2019 - 202 votes in favour, 432 votes against - and used the same word to describe the fate of the text: 'crushed'. The scale of the defeat was unprecedented for the Prime Minister.

The United Kingdom is facing a completely new political and diplomatic situation. As a result, the fiercely-negotiated deal between Theresa May's government and Brussels has been buried and many uncertainties now remain in the country.

If Parliament fails to secure a majority on an alternative solution, the risk will automatically increase that the UK will leave the EU without an agreement. All arrangements negotiated with the EU would break down.

For rural land in the UK, EU support schemes (CAP) will disappear and could be replaced by those set up by the British government. This is an outstanding problem for English farmers.



AROUND THE WORLD

New Zealand

Having abolished subsidies in the 1980s, New Zealand now supports its farmers, although aid mainly consists of expenditure on research and biosecurity.

As a result, support levels are among the lowest of all OECD countries. Rather than universal payments to farmers, New Zealand targets specific areas such as promoting animal welfare, agri-innovation and sustainable production practices. Almost all agricultural production and trade is free from economic regulations and most prices are aligned with world market prices. Imports of fresh poultry and eggs are restricted on health grounds, so those markets are protected to a degree.

Brazil

Three measures form the cornerstone of farm support: market price controls, credit facilities and subsidised crop insurance. The government guarantees minimum prices for a range of agricultural products and provides reduced-interest loans that help farmers keep products off the market until prices are in their favour. Despite Brazil's size, support levels are low, but farmers have access to subsidised insurance schemes that compensate producers for losses from natural disasters.

Norway

Agricultural support accounts for 60% of farm revenues — three times higher than the OECD average — with target prices for a range of products set during annual negotiations between the government and industry leaders. Border protection remains high and import tariffs for most products range from 100% to 400%. Prices received by Norwegian producers are on average 80% above world market prices. Farmers receive direct payments, including area and headage payments, as well as payments based on output. Exports are subsidised by the government.

Switzerland

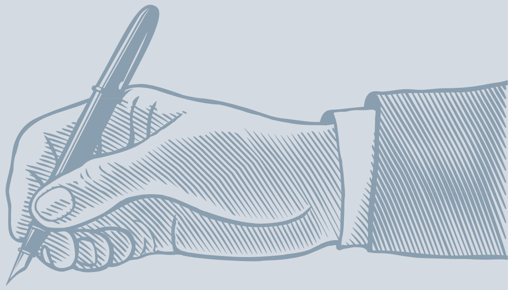
Swiss farmers are protected by a system of import tariffs and quotas. Support accounts for 58% of farm revenues but export subsidies for primary agricultural commodities were abolished in 2010. Expenditure on production and marketing mainly supports dairy farmers, who receive payments for milk from cows fed on hay rather than silage when the milk is processed into artisan cheese. Area payments are made to farmers who grow oilseeds, protein crops or sugar beet. Direct payments are also made to farmers who contribute to animal welfare standards.

USA

Support for farmers in the USA is lower than average and has declined from 21% of gross farm revenue in the late 1980s to just 10.7% today. Support largely depends on market prices. For crops, a Price Loss Coverage programme pays out when market prices fall below an agreed level. Similarly, an Agriculture Risk Coverage programme makes a payment when farm revenue falls below a rolling average benchmark level. Subsidised crop insurance is available to producers. Other support includes direct loans for purchasing farmland.

Australia

Farmers in Australia are strongly market-orientated, and support for agriculture represents just 1.3% of farm revenues, according to OECD figures. Producers receive no market price support, but they do receive tax concessions and other financial incentives to encourage investment. The government provides support for research and development programmes that encourage productivity. Australia restricts agricultural imports from areas deemed to be at risk from pests and disease.



Taxation on rural land in the United Kingdom*

For UK resident citizens owning farmland as individuals

Inheritance Tax (IHT):

Normally levied on death at 40% of the value of property above the nil-rate band of €373,750. However, there is 100% relief from IHT for the Agricultural Value of agricultural property with vacant possession owned for more than two years or let under a tenancy after 1 September 1995 and owned for more than seven years

Capital Gains Tax (CGT):

Normally levied at 28% of the gain in value since acquisition for disposals of residential property and 20% of the gain for all other property. However, Entrepreneurs' Relief can apply to the disposal of a trading farm business after two years' of ownership up to a lifetime limit of €11.5 million.

Income Tax (IT):

Normally levied at 40% in the band below €172,500 p.a. and 45% for everything above that amount.

Stamp Duty Land Tax (SDLT):

Normally levied in several bands rising from 2% on the value above €143,750, to 12% for the value above €1,725,000 on purchases of property. However, on farmland, including mixed-use farms (residential and agricultural) the rate is 2% between €172,500 and €287,500 and just 5% for the value above €287,500.

For UK resident citizens owning forestry as individuals

Inheritance Tax (IHT):

Woodland managed commercially qualifies for 100% Business Property Relief (BPR) from IHT once held for two years.

Capital Gains Tax (CGT):

The value of the growing timber crop managed as a commercial business is currently exempt from Capital Gains Tax. However, any increase in the value of the underlying land from the date of acquisition until the sale of the property will be taxed without indexation at the rate of 10% if Entrepreneurs' Relief applies (see above).

Income Tax (IT):

Income generated from the sale of timber from commercial woodlands is exempt from income tax. No tax relief is available on development costs or interest payments, but no income tax is payable on the income generated from a timber crop or on the sale of an entire plantation.

* *This introduction to the UK fiscal regime is not intended to be comprehensive nor is it to be relied upon for any business or investment decision. In every case, individuals should take advice from a registered tax practitioner.*

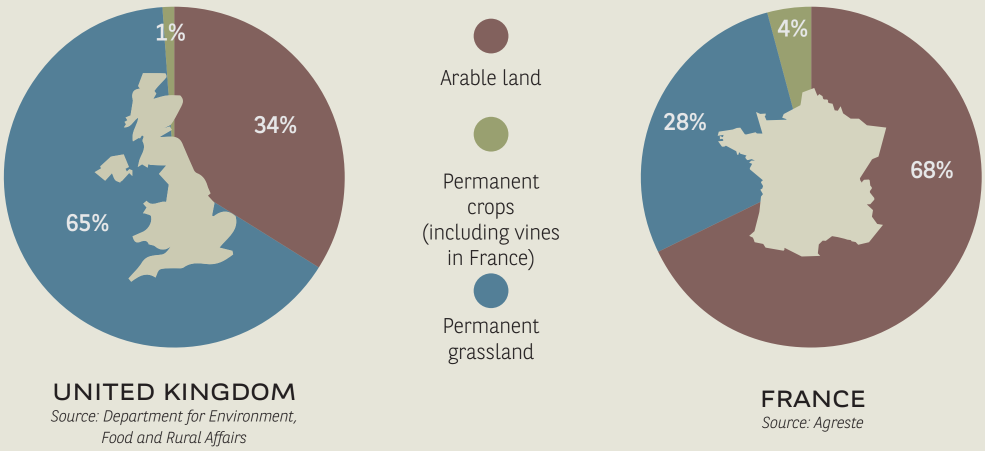
Key figures for the United Kingdom and France

The United Kingdom's utilised agricultural area (UAA) is 17.3 million hectares, or 70% of the country's total area. Land use by the UAA is therefore higher than in France (50%), explained by the fact that forests cover a higher proportion (31% of the total surface area) in France compared with 13% in the UK. Despite the very similar populations, there are half as many farms in the United Kingdom than in France and farm managers tend to be older in the UK. Finally, UK agriculture is not a net exporter like France.

		UNITED KINGDOM	FRANCE
Total area	(km²)	243,610	549,190
Utilised Agricultural Area	(% total area)	70%	50%
	(million ha)	17.3	26
Surface still as grassland	(million ha)	11.3	7.5
Forest area	(% total area)	13%	31%
	(million ha)	3.1	17
Vineyard surface	(ha)	2,000	786,000
Number of holdings		212,000	453,100
Average size of holdings	(ha)	81	62
Average age of farmers	(years)	60	51
Total population	(millions of inhabitants)	64.4	65.9
Food trade balance	(€ billion)	-31.6	+9.3

Sources: Alim Agri – Ministry for Agriculture and Food.

Breakdown of the Utilised Agricultural Area



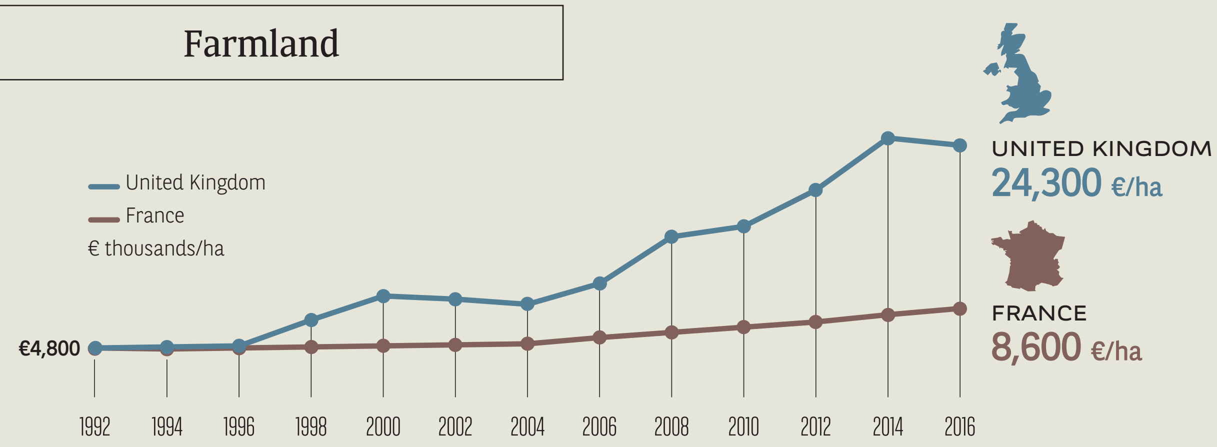
Agriculture in the two countries also differs as to the utilised agricultural area. In England, with a dominant animal production, the permanent grassland occupies two-thirds of the UAA, whereas in France the same figure relates to arable land (mainly crop sales).

Financial criteria and profitability of farms

Average data for all farms	UNITED KINGDOM	FRANCE
Net value added	€75,190	€57,076
Net average annual income	€32,082	€25,641
Total subsidies	€28,510	€39,574
Proportion of aids in revenue	89%	154%

Source: Agricultural Accounting Information network

Farmland



Evolution of farmland prices between 1992 and 2016

Sources: UK (Eurostat) and France (Safer)

Twenty years ago, the gap in average land prices started to widen between the two countries, leading to huge disparities today. Indeed, in 2016 average prices in the UK were almost three times higher than in France. These skyrocketing prices rank the United Kingdom in third spot in Europe, behind the Netherlands (€57,900/ha) and Germany (€26,300/ha). However, prices plummeted by 14.5% between 2015 and 2016 (the sharpest in 20 years) due to Brexit concerns and low commodity prices.

Vineyards

In the United Kingdom, wine production occupies a surface area on the rise (+2,000 ha), which is anecdotal compared with the area of French vineyards (786,000 ha). It is therefore a tiny surface area but it reflects Britain's plan to establish itself on the sparkling wine market.

Source: Alimagri

Forests

With 3.1 million hectares of forest, the United Kingdom is among the least wooded countries in the European Union. In the UK, 70% of forest area is privately owned, close to the figure in France (75%). Hardwoods and softwoods each account for half of the forest area. By comparison they occupy 72% and 28% respectively of the forest area in France.

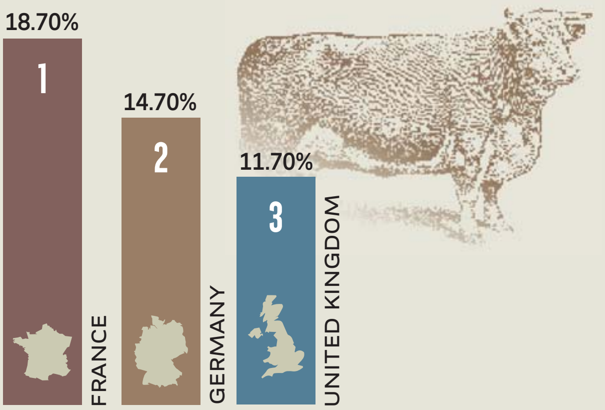
	UNITED KINGDOM	FRANCE
Hardwoods	50%	72%
Softwoods	50%	28%

Source: Alimagri

The United Kingdom is the leader in ovine meat production and the 3rd-largest dairy and beef producer in Europe

Source: Eurostat and FAOSTAT

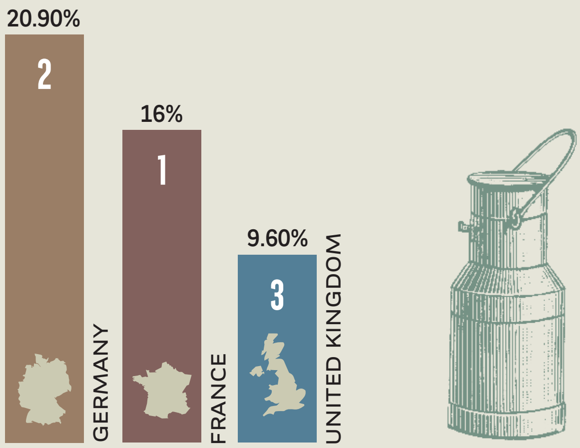
Beef production



Europe's top 3 producers

Source: Eurostat

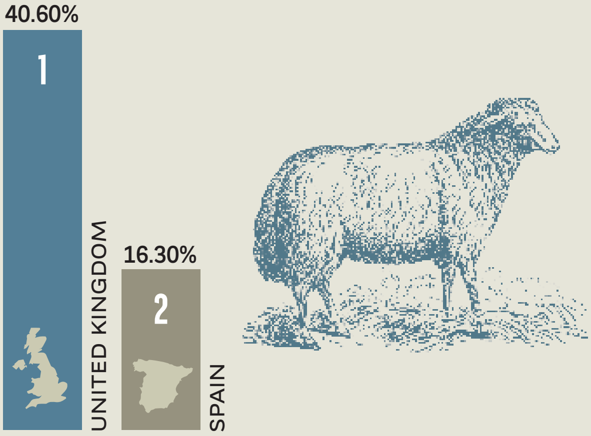
Cows milk production



Europe's top 3 producers

Source: Eurostat

Ovine meat production

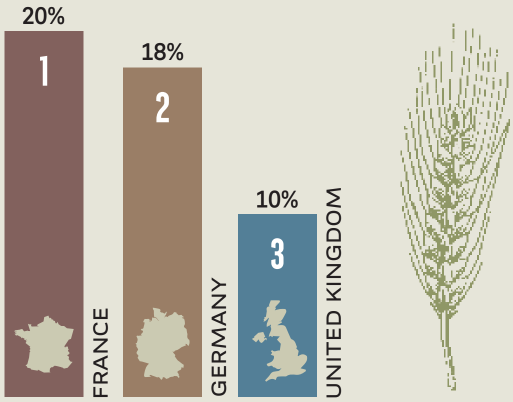


Europe's top 2 producers

Source: Eurostat

The United Kingdom accounts for 40% of ovine meat production, 12% of beef production and 10% of milk production in the European Union.

Cereal production



Europe's top 3 wheat producers

Source: Eurostat

Although the UK is largely a meat producer, the United Kingdom accounts for a significant slice of the EU's cereal production. It is the third-largest producer of wheat within the European Union with a 10% market share and is the fourth-largest producer of barley and oats, each representing 10% of European production. In terms of wheat and barley, the United Kingdom is behind France. On the other hand, United Kingdom is ahead of France for the production of oats.

OVERVIEW

The rural land market in France in 2018

P. 26
Farmland

P. 32
Vineyards

P. 40
Forests

OVERVIEW

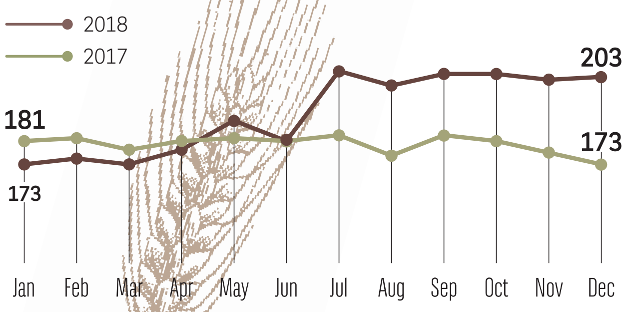
Farmland

PRODUCTION

Declining yields except for wheat

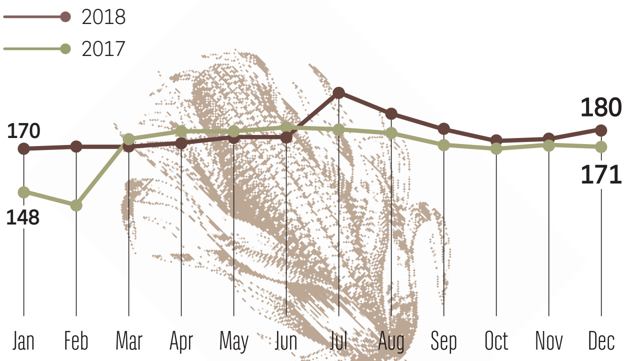
WHEAT
Prices on the rise

World grain stocks are estimated to have hit a four-year low, but the drop in volumes was offset by buoyant prices, in wheat for example. With disappointing yields at the end of 2018, wheat prices were up at €203/tonne, an increase of €30/tonne compared with 2017. Experts estimate a potential upside of around €20/tonne.



Wheat prices in 2017-2018 (€/tonne)

Source: Terre-net.fr



Corn prices in 2017-2018 (€/tonne)

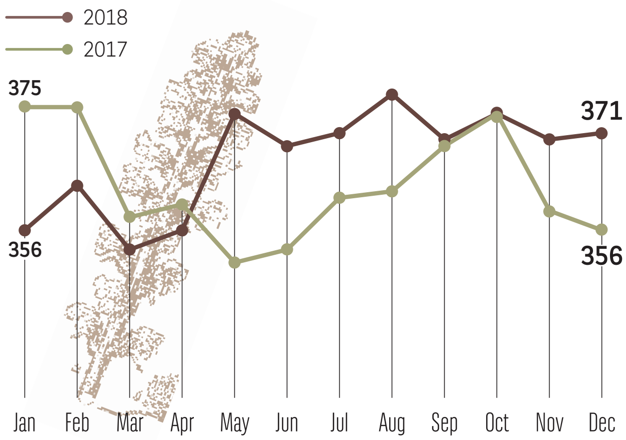
Source: Terre-net.fr

CORN
Flat prices

Corn crops suffered from a long drought that drove down yields. French production (12 million tonnes) was down by 2 million tonnes versus 2017, while the world harvest expanded. Prices barely changed (€180/tonne), remaining more or less flat on 2017.

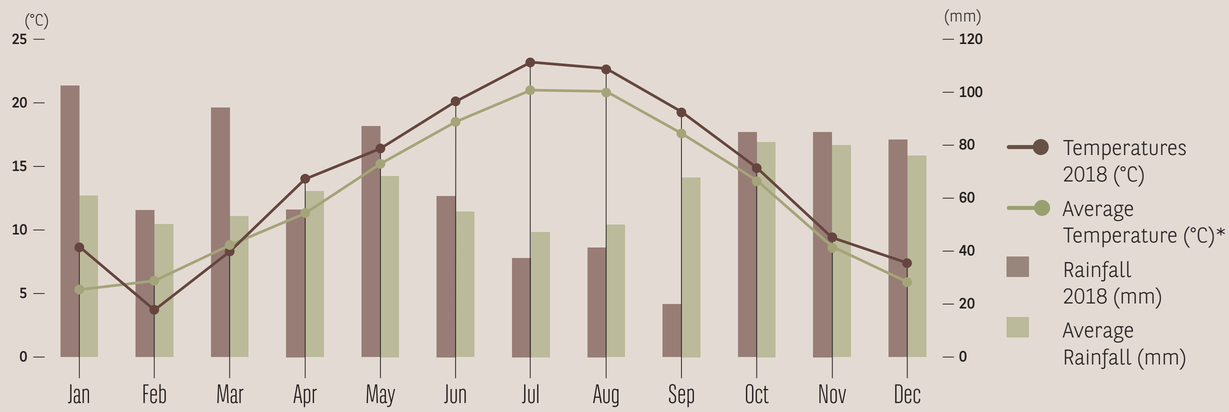
RAPESEED
Little hope of a sharp rise

End-of-cycle weather conditions hampered rapeseed yields. The national average was 30.6 q/ha, down 7.6 q/ha on 2017. It was one of the worst years of the decade. Germany and Poland suffered the same setbacks as France. In the European Union, production (19.7 million tonnes) was down 2.3 million tonnes. Nevertheless, prices (€371/tonne) recovered despite the upsurge in world production and the context of geopolitical tensions between China and the USA.



Rapeseed prices in 2017-2018 (€/tonne)

Source: Terre-net.fr



Rainfall and temperatures in France in 2018 vs. the 1980-2010 average

Sources: Meteo France & Terre-net.fr
**1980-2010 average*

Climate in 2018

The weather was very mixed last year. After a very wet winter and a wet and mild spring, the summer and autumn were scorching.

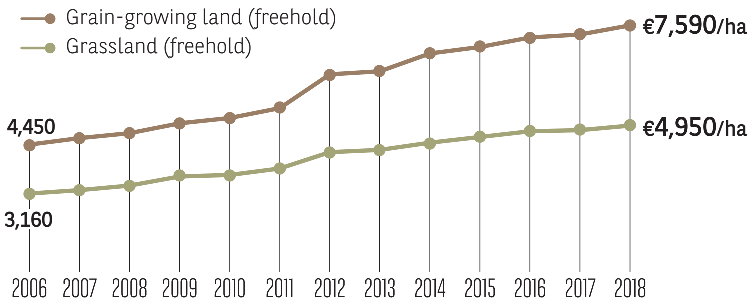
2018 was the hottest year on record since 1900. Apart from February and March, every month of the year registered above-normal temperatures. In January, a record was broken for the highest temperature (8.2°C), i.e. 3.1 degrees above normal. Overall, 2018 set a new record with an average temperature of 13.5°C.

Paradoxically, for the year as a whole, the average rainfall was 847 mm, or 10% above normal levels (769 mm). Moreover, rainfall was heaviest in the first two quarters, and in the last quarter. Between 15 June and 15 November, France suffered from an exceptional drought. As a reminder, the driest year on record is 1989 with 550 mm of rainfall across France.

FARMLAND MARKET

Following a dip in 2017, prices resumed normal levels in 2018

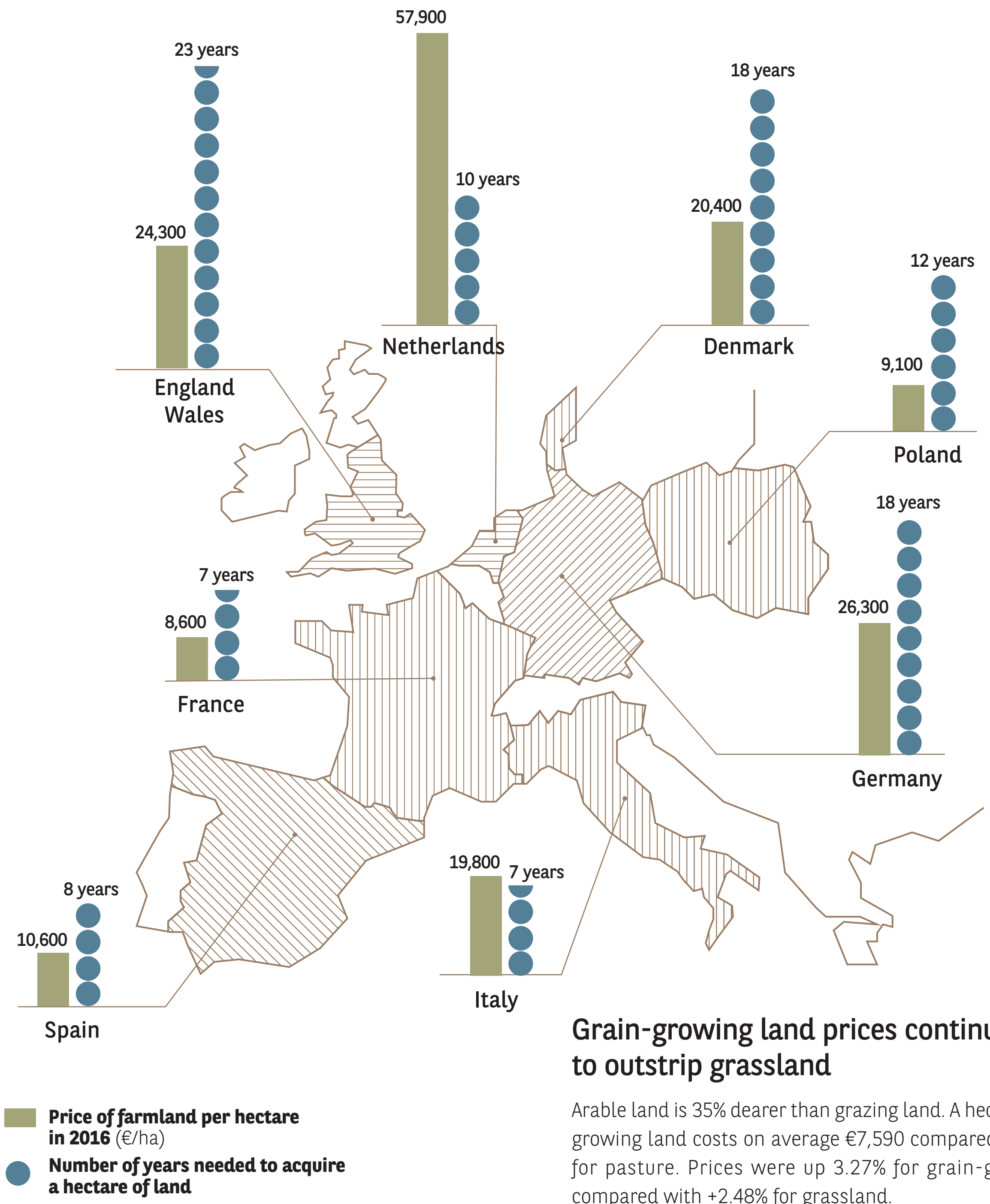
Evolution of land prices (freehold)	Grain-growing land	Grassland
2017 - 2018	3.27%	2.48%
2016 - 2017	1.10%	0.60%
2009 - 2018	5.15%	3.71%



Farmland prices in France (average values €/ha) **and % increase**

Source: Valeurs Vénales

A hectare of French farmland in 2018 sold for on average €6,270, up 2.96% year-on-year. This resumption of normal prices must be considered in the context of the recovery in grain markets. Prices in France are still below those of its European neighbours. Furthermore, it takes 7 years of revenue to acquire a hectare of land in France, compared with 18 years in Germany and 23 years in England or Wales. Over the past 10 years, French farmland has appreciated by on average 4.5% annually.



Source: Safer

Grain-growing land prices continue to outstrip grassland

Arable land is 35% dearer than grazing land. A hectare of grain-growing land costs on average €7,590 compared with €4,950 for pasture. Prices were up 3.27% for grain-growing land compared with +2.48% for grassland.

At the top end of the market, the best grain-growing land fetches in excess of €25,000 per hectare. Such regions include Nord-Pas-De-Calais, Santerre, Champagne Crayeuse and Saint Quentinois, as well as certain regions in the south of France, such as Crau and the Durance Valley. At the bottom end, the cheapest land costs between €2,500 and €3,000 per hectare in Mayenne, Morvan and the Jura for example.

In a low interest-rate environment, farmland remains an attractive asset

For landowners, the average price of leased land in 2018 was €5,165 per hectare, i.e. up 2.5% on 2017. There was a noticeable increase in grain-growing land (+2.8%) versus grassland (+2.1%).

For the second year in this decade, rents fell again (-2.4% y/y vs. 2017). Nevertheless, based on an average farm rent of €160.50 per hectare and per annum, the gross rental yield on leased farmland is 3.1%. In today's context of low interest rates, that is not a bad return. The average gross yield varied between 3.5% for grassland and 2.8% for grain-growing land, depending on the region and type of land.

The agri-food sector is increasingly facing many challenges (economic, environmental, social, technological). Production systems need to be transformed to adapt to changes and achieve more autonomy. The rural land market does not escape these challenges, and new forms of alternative financing are emerging (crowdfunding, land piggybacking by external investors, etc.) and we are seeing a growing number of non-operating investors.

Grain-growing land and grassland (leased) (€/ha)	**2018**	**2017**	**2016-2017**
Grain-growing land*	6,350	6,180	+2.8%
Grassland*	3,980	3,900	+2.1%

** Average*

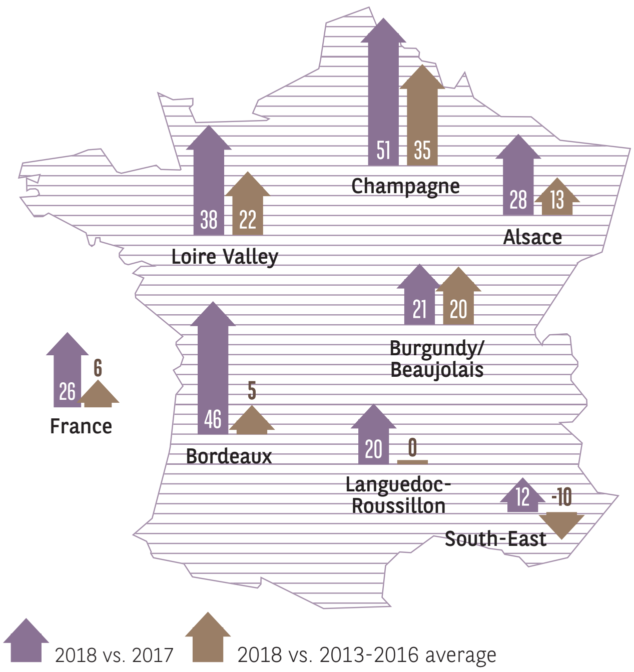
Annual yields for leased land	**2018**
Grain-growing land	2.8%
Grassland	3.5%

Source: Valeurs Vénales

OVERVIEW

Vineyards

A very good vintage year in quality and volume



Wine production in France and its main regions (%)

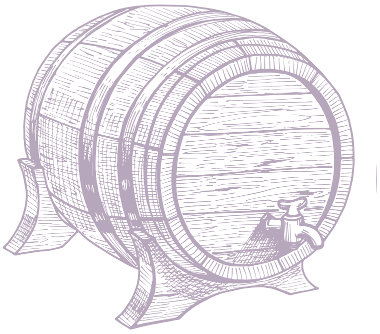
Volumes generally increased in 2018

After a small grape harvest in volume terms in 2017, last year saw a marked upturn with a harvest of 46.6 million hectolitres (hL). Volumes were up 26% on 2017 and up 6% compared with the five-year average. The other two major European producers, Italy and Spain, also recorded an upturn in harvested volumes, which contributed to the 19% rise in the European Union's harvest in 2018.

Outside the European Union, the USA remains the largest producer with 23.9 million hL in 2018. Harvests in Chile and Argentina soared in volume terms: +36% (12.9 million hL) and +23% (14.5 million hL) respectively. Production outside the EU rose by 5%.

Overall 2018 enjoyed an abundant world harvest amounting to 282 million hL, making the last grape-picking season one of the largest since the early 2000s.

Global consumption continues to rise, and production should be sold off without much difficulty. The leading trio of producer countries (Italy, France and Spain) is therefore counting on a surge in demand from new consumer hubs such as the USA and China. On the other hand, consumption in Europe has been declining for many years.



Champagne region
In 2018, the harvest took place without a hitch and ended in late September, having benefited from excellent weather conditions. Production soared by 35% compared with the five-year average. Some of the grapes were not picked because the authorised volumes had been reached.

Burgundy and Beaujolais regions
Despite a very severe drought for the second consecutive year, volumes did not fall because the hot spells were very localised and mainly affecting young vines. More wine was produced and the quality was good, allowing winemakers to rebuild their stocks.

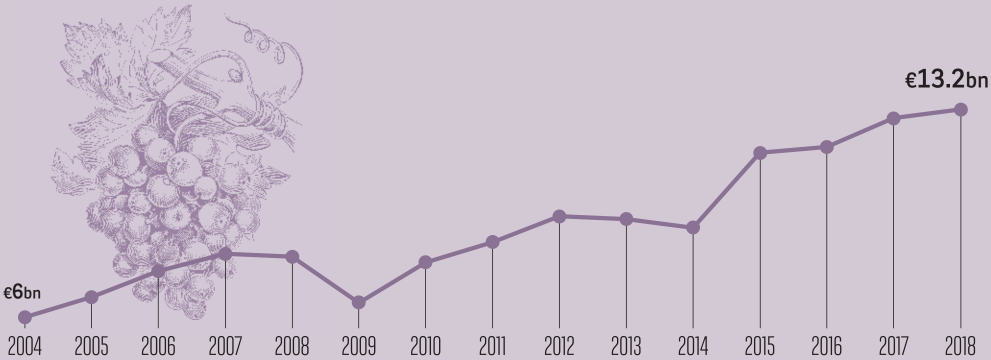
Centre-Loire Valley region
Rainfall at the end of the summer mostly had a positive effect on berry growth just before the harvest, which ended in mid-October. However, at some vineyards, local rain caused grape loss due to mildew. Despite this health issue, production was 22% higher than the 2013-2017 average.

Alsace region
Harvests took place earlier than usual and in favourable weather conditions. As in the Burgundy-Beaujolais region, the drought only affected some young vines in some local areas. Volumes in 2018 were 28% higher than in 2017 when production was hampered by frost.

Bordeaux region
The weather was mild in this region. That said, mildew was responsible for grape loss estimated at 10% of the harvest on average. Yields varied considerably, but the 2018 vintage was in line with the five-year average. Note that the yield in 2018 was 46% higher than in 2017, when the yield was affected by frost.

Languedoc-Roussillon region
Harvests took place in favourable weather conditions, finishing at the end of September. The grapes were fully ripe when they were picked. Some local areas, however, suffered from hail or mildew but for the parcels of land that did not, yields were higher than expected. Overall production in the region was close to the five-year average.

Provence et Côtes du Rhône regions
Grape-picking was over by the end of September. Most of these regions benefited from favourable weather conditions. Production was up 12% on 2017 but 10% lower than the five-year average. The main consequence of the warm and damp weather during the summer was that attacks of mildew caused yields to fall, particularly in the Var and Vaucluse.



Wine and spirits exports: the trade balance since 2004 (€ billion)

Source: FEVS

France's wine and spirits exports

Export sales in 2018 topped €13 billion

French exports of wine and spirits increased for the fourth year in a row, exceeding the €13 billion mark for the first time. Sales edged up by 2.4% y/y to 13.2 billion. This performance was achieved despite thinner volumes (-2.7%) as a result of the poor harvest in 2017. The balance of trade continues to grow (up 1.7% at €11.7 billion), securing the industry's position as the second-largest trade surplus in France.

After a historically small harvest in 2017, the low volume of available stocks helped to push up the price of wine exports by 2.6% to €8.9 billion.

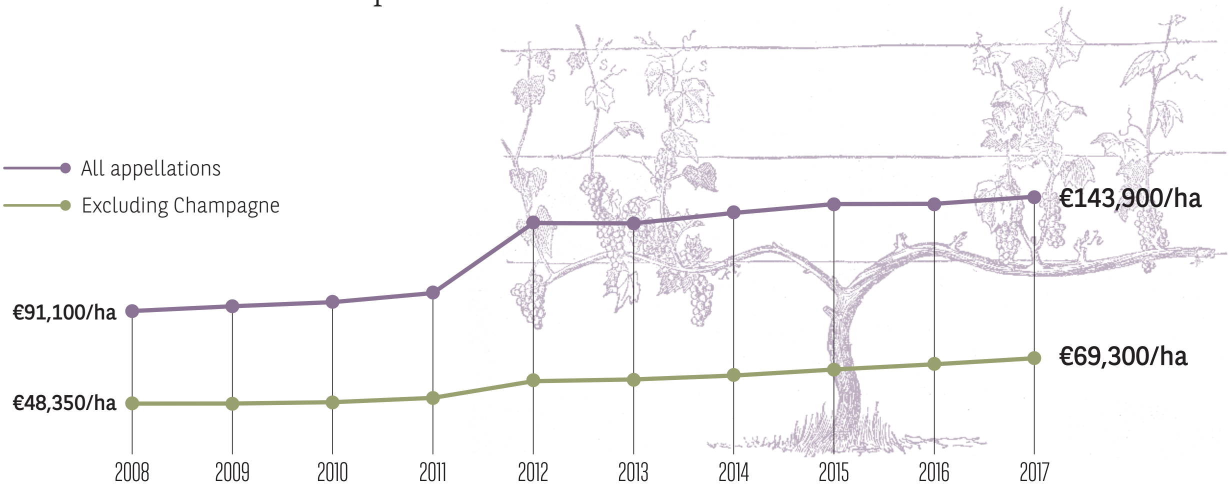
Spirits exports continued to rise, by 1.8% to €4.3 billion, particularly thanks to Cognac.

French exports to the European Union increased for the second year in a row (sales grew 2.2% to €4.5 billion) although non-EU countries are still paramount to France's business development strategy for wine and spirits exports. Indeed, exports to these countries were up 2.6%, representing nearly 70% of the rise in sales in 2018. Moreover, they account for two-thirds of exports in value terms. The largest importer of French wines and spirits is the USA. Sales to this region continued to grow steadily (+4.6% y/y to €3.2 billion). Due to trade tensions, exports to China slowed and fell (-14.4%) to €1 billion. However, export figures for China are skewed because this market receives supplies from Hong Kong and Singapore.

Finally, despite the uncertainties surrounding Brexit, exports to the United Kingdom were stable at €1.3 billion (-0.6%).

WINE-GROWING LAND

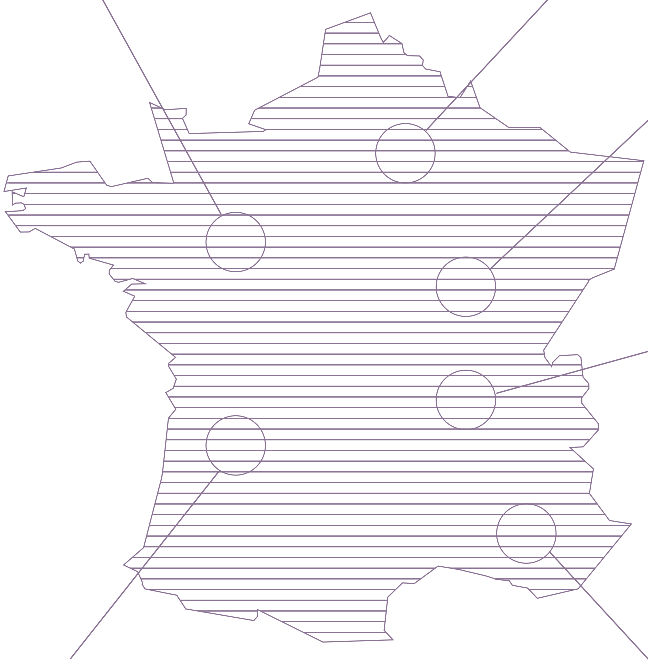
With the French wine sector in better economic shape, the price of wine-growing land rose in most appellations in 2018; only a few appellations depreciated.



Vine prices in France since 2008 (€/ha)

Source: Safer

Prices are on the rise



Loire Valley	
Saumur Champigny	66,340
Anjou	19,440

Champagne	1,520,750

Burgundy	
Grands Crus	> 14.2m
Premiers Crus	> 2.4m
Villages	> 1.3m
Beaujolais	22,270
Crus du Beaujolais	> 120,000

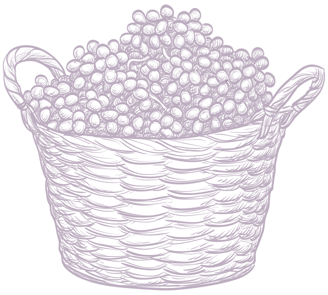
Côtes du Rhône	
Hermitage	1,384,990
Côte-Rôtie	1,281,250
Châteauneuf du Pape	487,650
Vacqueyras	133,290
Gigondas	106,730
Côtes du Rhône	32,990

Bordeaux	
Pomerol	3,880,160
Pauillac	2,771,620
Saint Émilion	1,974,960
Margaux-Saint Julien	1,672,800
Saint Estèphe	850,150
Bordeaux Rouge	26,240

Provence	
Bandol	169,890
Cassis	148,330
Côtes de Provence	65,650

Highest price in 2018 (€/ha)

Sources Valeurs Vénales 2019



Over the past ten years or so, there has been a real improvement in the market that is largely due to expanding global consumption and a strong momentum in exports.

This trend is chiefly driven by Champagne, but also by other regions such as Bordeaux (largest market by value), Burgundy, Côtes du Rhône and Provence. Over the past ten years, prices for all appellations have progressed by 3.7% per year and by only 3.3% on average if we exclude Champagne.

As for farmland, nearly one in three hectares is sold with a tenant in situ and transactions represent less than 2% of the total surface area. The average price of wine-growing land is close to €144,000 per hectare, but there are noticeable differences between regions and between appellations.

Bordeaux region

The market for wine-growing land around Bordeaux is extremely buoyant. Around 2% of the region's 115,000 hectares of land (i.e. 2,500) is sold each year. The choice is wide, and available to all types of buyers: from €26,000 per hectare in the Bordeaux appellation to more than €3.8 million per hectare for Pomerol. Prices are rising in the prestigious appellations. At €1,974,960 per hectare, the price for Saint Émilion shot up 10.1% compared with 2017. Pomerol, which continues to hold the record for the most expensive land in the Bordeaux region, appreciated by 5.4% y/y. In Saint Estèphe, the price per hectare climbed by 6.9% from €795,600 to €850,150. Margaux and Saint Julien are valued at more than €1.6 million per hectare. Land for Pauillac edged up 2.5% last year and is now worth €2,771,620 per hectare.

At the bottom end, appellations are gaining less momentum. Prices for Bordeaux picked up (+2.5% y/y) although appellations have lost more than 50% in value over the past 20 years.

Champagne region

The Champagne market remains very active and is the leader by value. The market is driven by the sale of small surface areas averaging around 15 ares (1 are = 100m^2). This makes them accessible to a large number of buyers who are mostly established wine producers. The average price of vine in the Champagne appellation varies between €1.2 million and €1.5 million per hectare. The price of vine in the Champagne appellation has edged up by 3.4% per annum over the last ten years.

In the highly-prized Côte des Blancs area, the average price per hectare can range between €2 million and €2.2 million.

Burgundy region

Wine-growing land is Burgundy is rare on the market and some very emblematic sales are driving up the price of *Grands Crus*. In the 'Villages' appellation, a hectare of land costs between €0.8 million and €1.5 million, whereas *Premier Cru* land fetches between €2.4 million and €3.4 million for the top appellations. Meanwhile, prices for very rare *Grands Crus* are rocketing. This tension on the market is having repercussions across the whole region and Côte d'Or winemakers are keeping an eye out for less known vineyards in the Jura, Saône-et-Loire and Beaujolais regions.

Côtes du Rhône region

In the north of the region, the market is overstretched and prices in Côte-Rôtie and Hermitage can easily top €1.2 million per hectare. Land in the Hermitage appellation commands as much as €1,384,990 per hectare compared with €1,281,250 for Côte-Rôtie, which only edged up by 0.5% y/y.

To the south (in the Côtes du Rhône méridionales region), the value of the Côtes du Rhône appellation shot up by 8.7% to €25,000 – €33,000 per hectare last year. Prices for the region's *Cru* land continued to gain momentum. Châteauneuf du Pape advanced by 7.9%. At €487,650 per hectare, it remains the region's most expensive appellation.

Loire Valley region

Demand is changing and there is a renewed interest in Chenin (white-wine grape variety). Non-local investors are starting to look at this region, which boasts many advantages. The Anjou appellation appreciated (+8.1%) for the first year to €19,440 per hectare, while Saumur-Champigny only edged up by 1.5% to €66,340 per hectare.

Provence region

Provence rosé is gaining in popularity, including at the international level. Indeed, land prices for Cassis and Bandol appellations continue to enjoy steady growth. By comparison, a hectare of land in Bandol is now worth €169,890 (+2.5%) compared with €148,330 in Cassis (+3%).

In Coteaux d'Aix, wine-growing land prices rose to €46,040 per hectare in 2018 (+5.4% y/y). Land in Côtes de Provence fetches between €50,000 and €66,000 per hectare. Prices for Côtes de Provence in coastal areas are on the increase with land currently worth between €120,000 and €150,000 per hectare.

TAXATION

New French law on the transfer of farms and vineyards (since 18 January 2019)

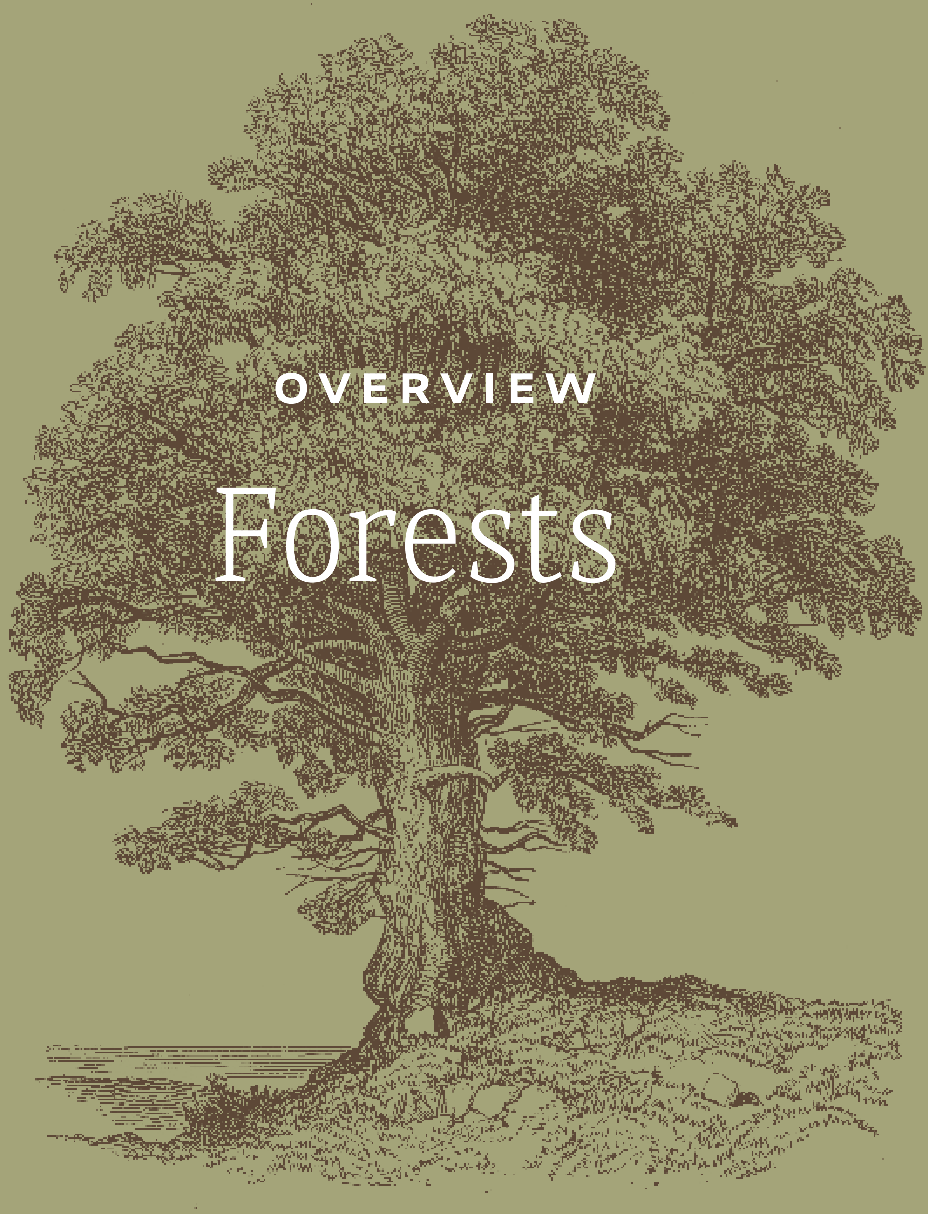
Until now, the transfer via gifting *(donation)* or inheritance *(succession)* of rural properties given on a long-term lease or on a leasehold transferable outside the family framework, as well as units in agricultural land groupings (GFA) have been subject to an exemption of transfer/ inheritance tax under certain terms and conditions.

Transferred properties were exempt at 75% of the value up to €101,897, then at 50% above this amount.

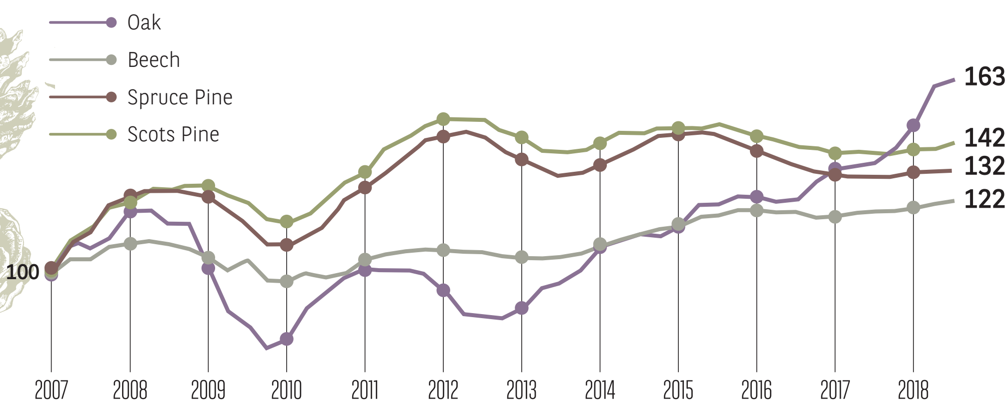
Since the new law of 18 January 2019, and in order to favour the transfer of farms and vineyards, this 75% threshold has been raised to €300,000 for probate estates opened and gifting registered after 1 January 2019.

OVERVIEW

Forests

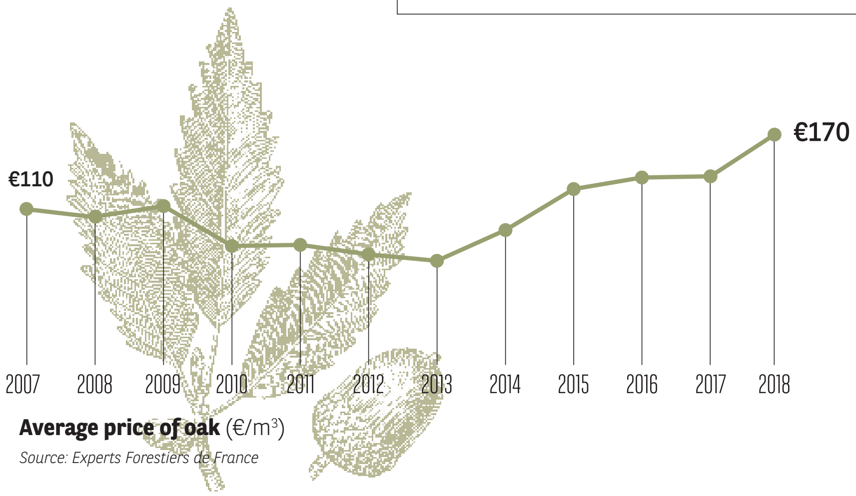


The autumn 2018 sales confirmed another very strong trend in demand for oak that has lasted for more than five years. The increase was much less apparent in other hardwood species. The softwood market improved and prices were firmer, despite large volumes coming to the market, reflecting the pick-up in the economy in early 2018.



Standing timber vs. ONF's standing sales price index
Index (base 100 Mar-07)
Source: ONF/Observatoire Economique de la Forêt, October 2018

HARDWOODS



Average price of oak (€/m³)

Source: Experts Forestiers de France

"*Oak is priceless!*" While the average price of oak continues to rise (trading at around €170 per cubic metre), the finest bundles now fetch more than €500 per cubic metre. In the second quarter of 2018, prices rose on the back of strong demand from the timber and cooperage markets. At public sales, prices increased by 25% and by more than 50% over two years. Numerous professionals in the sector describe this phenomenon as "*unprecedented!*". At the beginning of the spring, nearly 96% of the bundles found a buyer, whereas an additional 16,000 m³ of wood had been on sale.

Will this strong demand for oak and buying pressure perhaps encourage professionals to turn to alternative species?

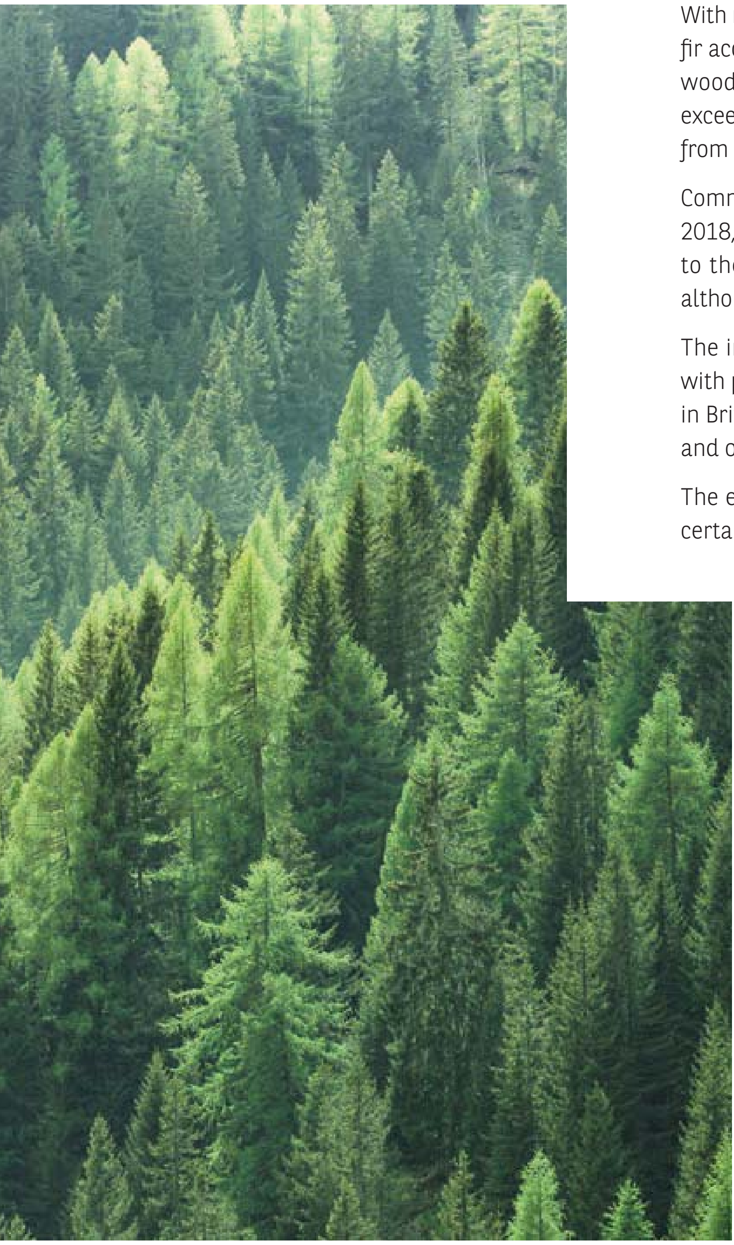
	1Q16	1Q17	1Q18	Change 2016-2018	Change 2017-2018
1 m³	98	116	157	+60%	+35%
1.5 m³	129	157	202	+57%	+29%
2 m³	151	186	233	+54%	+25%
2.5 m³	168	209	258	+54%	+23%
3 m³	182	225	278	+53%	+24%

1st quarter 2018: Price of cut wood, €/m³, Public sales, ONF Jura

The price of beech is flat, but demand is solid. However, top bids do not exceed €75/m³. The average (roadside*) sale is around €60/m³, which makes ash good value in a more dynamic market. Demand has increased further since the beginning of 2018. Fetching on average €100 per m³ (roadside), the price for the finest logs were up 20% on 2017.

* *Unlike standing sales, roadside sales require the owner to harvest and remove the wood. He must call on a provider who stores the wood in a 'roadside' depot awaiting a buyer.*

SOFTWOODS



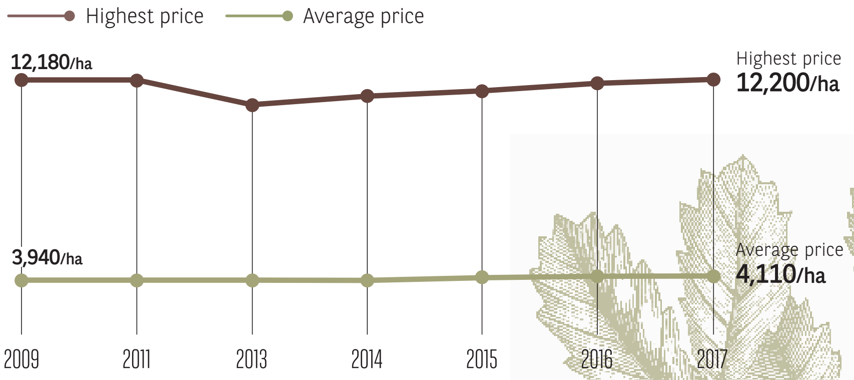
With nearly 290,000 m³ brought to the market in the first half of 2018, douglas fir accounted for the bulk of softwood volumes harvested. In terms of price, wood less than 1 m³ barely changed in value (€35-48/m³), while wood exceeding 1 m³ rose by 7% (€60-65/m³). Very large timber no longer benefits from an additional purchase premium.

Common spruce, with 157,000 m³ placed on the market in the first half of 2018, ranked in second place. Despite a massive jump in volumes brought to the market (+70%), the common spruce market continued to expand although prices remained stable with significant disparities between regions.

The improvement, begun in the maritime pine market in 2017, continued with prices rising by 5% in the main production regions in 2018, particularly in Brittany. Price variations exist between the Aquitaine region (€46-50/m³) and other producer regions (€31-38/m³).

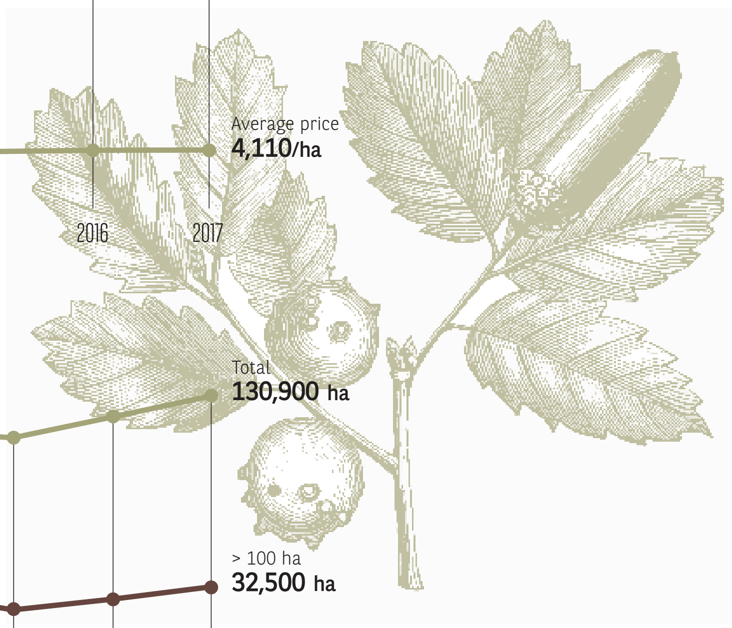
The economic slowdown and political tensions in the second half of 2018 certainly had an impact on the timber market at the end of 2018.

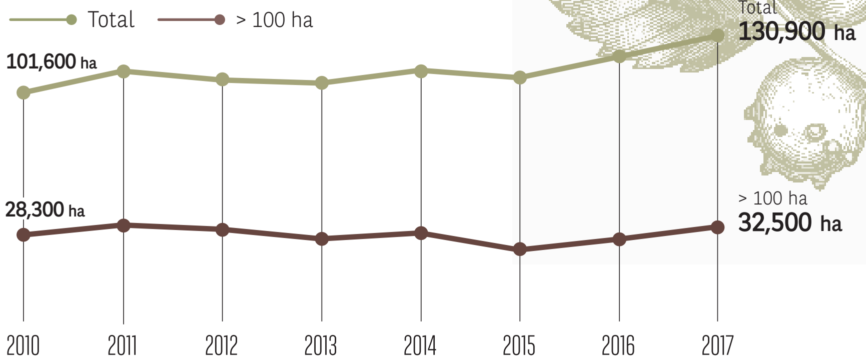
THE FOREST MARKET



Forest land prices (€/ha)

Source: Safer





Forests: Surface areas sold (in hectares)

Source: Safer

The average price of one hectare of forest was €4,110 in 2017

This apparent price stability masks the contrasting trends between regions and according to the quality of land placed on the market, with transactions fluctuating between €630 and €12,200 per hectare.

Forests over 100 hectares registered 150 transactions (0.8% of the total number of forest transactions) in 2017, including 80 for unbuilt forests (no buildings). They are usually valued in the upper bracket (€8,000 – €12,000 per hectare). This price increase is largely due to the higher value of forest soil, which may exceed €1,500 or even €2,000 per hectare. We assume there is a 20-30% premium on large forests. Over the past two decades their price has doubled.

Even though the surface area sold surged by 9.1% in 2017, the supply of forests over 100 hectares on the market is still as low (around 30% of land sold). It should be noted that the average surface area of forests over 100 hectares sold is 226 hectares.

Sources:

Agreste & Alimagri Ministry of Agriculture

RICA (French Farm Accountancy Data Network)

Safer (Sociétés d'aménagement foncier et d'établissement rural)

Terre-net.fr

Doc'Eco Group Information Centre/BNP Paribas Group

Office National des Forêts Bourgogne

Experts Forestiers de France

Valeurs Vénales

Fédération des Exporteurs de Vins et Spiritueux

OIV (International Organisation of Vine and Wine)

Research Department of Strutt and Parker

Department for Environment, Food and Rural Affairs

Eurostat

FAOstat

INSEE

Observatoire Economique de la Forêt

AGRIFRANCE

As part of BNP PARIBAS PROPERTY SNC - the BNP PARIBAS subsidiary dedicated to real estate activities - AGRIFRANCE is the department specialising in rural property: vineyards, prestigious country estates, farmland and forests. With over 40 years' experience in this domain, AGRIFRANCE works hand-in-hand with its clients in their personal wealth management.

Through a network of reputed professionals, AGRIFRANCE is also able to provide complementary services, such as property appraisals and estate management.

Advisory services and transactions in agricultural real estate, vineyards, forests and leisure properties

BNP Paribas Property SNC
16, rue de Hanovre
75002 Paris

Tel: +33 (0)1 42 98 43 51
Email: serviceclient.bnpproperty@bnpparibas.com

A French general partnership company (SNC)
with share capital amounting to €1,200,000.
Registered in the Paris Trade and Companies
Register under n° 784 194 144 RCS PARIS
Holder of professional licence
CPI 7501 2016 000 008 797 issued by the Chamber of Commerce
and Industry of Paris-Île de France
Guarantee BNP Paribas, 16 boulevard des Italiens, 75009 Paris,
France. E.C. Identification: C.E. FR25784194144

A BNP Paribas Group company.

Designed and published by DESIGN MEDIA
Photo credits: © iStock
English Translation: Charlotte Standring

CONNECT WITH US

Elite Entrepreneurs
@BNPP_Wealth
#Agrifrance

BNP Paribas Wealth Management

wealthmanagement.bnpparibas

AVAILABLE ON THE
"VOICE OF WEALTH" APP

The cover was made from transformed potato waste.

MIX
Paper from
responsible sources
FSC® C120343
www.fsc.org

AGRIFRANCE
BNP PARIBAS WEALTH MANAGEMENT

The bank
for a changing
world