

For the first time in years a significant number of tenant farmers have recently received a notice from their landlord that they intend to review the rent next Michelmas, writes Matthew Berryman of Complete Land Management.

It is ten years since rents were reviewed in any scale and that was when agricultural returns had just started to ease back after the heady days of the mid Nineties when everything produced was valuable, costs were relatively low and the IACS cheques arrived on time!

For the landlord the logic behind a review is obvious – wheat prices have soared to £200/tonne, milk will climb to 25 pence per litre before the year is out and the beef and sheep sectors will be fine because they don't use much feed do they! And after all the landlord has endured a pretty lean time over the last decade when income from let land has, in real terms at least, fallen significantly.

But is this right and how much has the farm income really gone up? Let's start with a look at the arable sector. At the time of writing, feed wheat for November 2008 is £125/tonne. Twelve months ago the spot price was about £90. In other words a three and a quarter tonne crop next year will be worth about £114 per acre more than it was in 2006. If the same comparison is applied to a tonne and a half crop of oilseed rape then the increase is worth £90 per acre. So, arable incomes are up by at least £100 per acre.

To the men in tweed this translates into a rent increase of £50/acre. Ouch, and other words to that effect! But what about costs? For the crops being sown now seeds, fertilisers and sprays are up £25 to £30/acre compared to the 2006 crop, not to mention increases in labour, fuel and machinery costing the average South East grower an extra £15 to £20 per acre. Together these add up to an extra £40 to £50 per acre of production costs. So, whilst we cannot argue that income is up, the net benefit is more likely in the region of £50/acre, half

# Can tenants afford rent rises?



of which the landlord might expect to claim as rent.

As for dairy the outlook for milk price is better than it was in 1995. At last, the combined effect of pressure on the processors and retailers to pay a sustainable price and also a significant increase in the value of skimmed milk powder and butter is leading to a dramatic increase in milk price of at least five pence per litre.

To consider this in terms of extra income then for a typical Sussex unit producing 7,750 litres/cow the milk will be worth an extra £220 per acre. Some may now be salivating at the prospect of collecting an extra £110 per acre rent! But hang on. Those wheat and oilseed rape price increases

have translated into much higher feed costs, and for those feeding 9,000 litre cows the better milk price might just pay the feed man.

As for beef and sheep, any agent that has promised his client more rent had better

prey for a miracle. Foot and mouth disease and stratospheric feed prices have made a difficult situation much worse.

So then, a bag of mixed fortune. From this sweeping analysis we can conclude that anyone with a chunk of decent arable land had better get ready to pay some more rent. But for the dairy sector arguments will rage about milk prices verses feed costs. Of course, every farm is different and circumstances vary but whether trying to persuade a tenant that a rent increase is reasonable or perhaps defending the status quo, then those who have served or have been served notices had better prepare carefully for what lies ahead.

In any event perhaps the rent review presents an opportunity not at first considered. Farming has stagnated for the last decade with little or no real investment, especially in the tenanted sector. If these recent price increases are a sign of better times ahead then this review should not only be used to discuss rent but also, and perhaps equally important, how the farm can be developed to meet the challenges of a rapidly changing world market.



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