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Savills Research
Rural

INTERNATIONAL FARMLAND FOCUS 2012

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Foreword
GOING WITH THE GRAIN

Farmland has proved to be an attractive investment on a global scale, but a knowledge of the risks involved is still essential

We live in a time of huge economic and political turbulence, which has seen over recent years the flight of capital to real commodities and tangible assets.

Early on in this phase of the cycle, the evidence was presented by the soaring price of gold, and has since moved into global cities including Prime Central London and, of course, into agricultural commodities and farmland markets.

No sector has been more affected by this phenomenon than agriculture. It is seen as a safe haven for capital and a hedge against inflation, as well as the means by which to secure the supply of food to feed a burgeoning population, that in part has an increasing appetite for the western style of protein based diets. It is not surprising that Sovereign Wealth Funds, family offices, corporate and private investors remain active players in this marketplace.

Global trends

In this publication we have drawn together the strands we believe are crucial to farmland investment on a world scale. We launch our Global Farmland Index which tracks the movement of capital value in the key global markets over the past decade.

Our research team has also looked at effective production and for the first time has charted the 'Cost of Land per Tonne of Wheat Production'. The outstanding investment performance of farmland is illustrated by our comparable analysis against alternative assets.

In the UK, where supply has been decreasing by more than 2% per year since the mid-1970s to around 160,000 acres in 2011, we have witnessed a trebling of farmland values since 2003.

Strong capital growth has also been recorded in many places over the same period, and in the US the value of non-irrigated wheat, cattle and corn cropland in the Plains in the first quarter of 2012 rose some 25% year on year. In addition, high commodity prices in recent years have strengthened income yields.

Market comparison

Knowledge of the risks of an investment is important and no more so for agriculture, where product and operational diversity are wide. For example, the movement of capital around the world has led countries such as Canada, Brazil, Argentina, Australia and others to consider, and in some cases, restrict foreign ownership. We take a detailed look at the risks and returns, giving an indicative score of the balance.

Our research extends across the mature markets of the UK, North America, Australia, New Zealand and western Europe and the emerging markets of South America, Central Europe and Africa. As part of this process, we have weighed up the risks of currency, politics and other influencing factors, which the investor can more readily take on board as opposed to the more uncontrollable risks such as weather.

"Opportunities exist across the world for large scale farming operations" Hugh Coghill

We are grateful to Richard Price of Price Sevenson, Perth, Australia, who has contributed a valuable insight into his marketplace, which we believe has the potential for exciting returns in a very mature and stable political and economic environment.

So why consider international investment in land? Agricultural commodities operate in a global market with similar product and input costs and where the biggest variables are the cost of land and labour. Opportunities exist across the world for large scale farming operations with the ability to enhance returns by effective capital investment, delivery and management.

Income yields of 5% to 8% are not unusual and in places there is undoubted opportunity for enhanced capital growth as the emerging markets move more forcefully to challenge their competitors. Furthermore, the tax benefits of Business Property Relief, and in the EU, Agricultural Property Relief, add another dimension to owning farmland.

Of course, there are always risks but these are manageable providing any investment is supported by local knowledge and delivery. We hope this publication gives you a flavour of our enthusiasm as well as an informative guide to this marketplace.

Hugh Coghill
Director International Land Markets
+44 (0)20 7016 3818
hcoghill@savills.com

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Global Farmland Index
A NEW MEASURE OF PERFORMANCE

The Savills Global Farmland Index highlights farmland trends, showing positive growth in many established and emerging markets

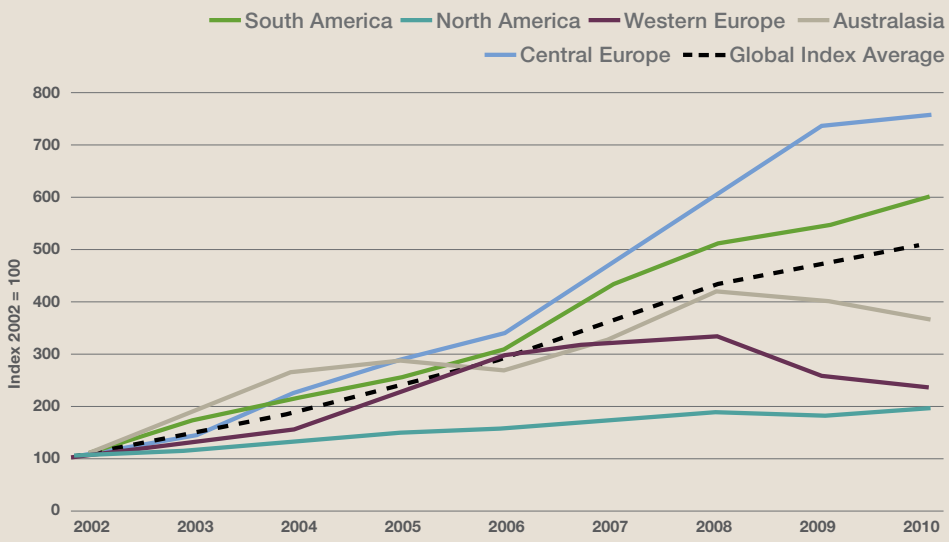
In this issue of the International Farmland Focus we launch the Savills Global Farmland Index. The Index is based on data from 14 key farmland markets and aims to provide a comparative indication of farmland value trends around the globe.

"The Index confirms the general trend for farmland values over the past decade has been positive" Ian Bailey, Savills Research

The Index is derived from average values of crop/arable land in domestic currency converted to US$ per hectare. Although converting to US$ per hectare can have an effect on annual growth rates in terms of domestic currency, it does allow potential investors a good starting point for comparable analysis. It is a common denominator, which corresponds to the main currency of global commodity markets. The values are represented as an Index relative to values in the year 2002 (2002 = 100).

Obtaining robust farmland value data in some countries, especially the emerging markets, is challenging and there is often a significant time lag before it is published. The Index will be updated and revised as data becomes available. However, we believe the Index represents a good indication in terms of the overall direction of farmland values and gives a clear comparison between the main country groups as illustrated in Graph 1.1.

GRAPH 1.1
Global farmland values



Graph source: USDA, Eurostat and various data estimates

The Index confirms that the general trend for farmland values over the past decade has been positive, with the most significant increases recorded in the emerging markets, notably in South America and Central Europe (CE). However, as we discuss on page 12, strong capital growth does not come without its risks.

It should be noted that within individual countries and specific regions, values can vary significantly depending on factors such as climate, accessibility (infrastructure), topography, soil types and land availability – especially for large scale farming operations. The diversity in values is illustrated on pages 10 and 11 where Richard Price, of Price Sevenson, provides a snapshot of the Australian market.

Accelerated growth

Savills Global Farmland Index shows that the more immature markets of Romania, Hungary, Brazil, Argentina and Poland recorded the highest percentage increases in farmland values between 2002 and 2010.

The primary reason for the accelerated growth within Central European countries was their entry into the European Union (EU) in 2004 for most of the countries with Bulgaria and Romania following in 2007.

Although restrictions in terms of foreign investment into farmland still apply in many of these countries, since their entry into the EU the markets have begun to open up, which has supported values.

In addition, further support for the agricultural sector in the form of EU farm payments and capital improvement projects for farmers have contributed to this rise in values.

Graph 1.2 shows land values in Romania increased by 1817% (US$ per hectare) between 2002 and 2010 with growth of 172% since accession to the EU in 2007. Despite this significant increase in values, Romania still has some of the cheapest farmland in the EU.

Farmland values in South American countries have also strengthened significantly over the past decade albeit from a relatively low base. At the start of the millennium around 800 US$ could buy a hectare of land in Brazil compared to over 5,200 US$ in 2010.

The pattern has been similar in Argentina. Legislation relating to foreign investment in both countries has, to some degree, dampened this growth in recent years, although values continue to rise more moderately and foreign investment opportunities remain.

Mature markets

In contrast, the mature markets around the globe have been under some pressure during the same time frame, with some recording little or negative growth in the global currency.

In western Europe for example, average farmland values have fluctuated recently with a period of accelerated growth followed by a correction in values in Northern Ireland, Ireland and Denmark. The UK appears to be an exception, reporting a significant growth in values between 2007 and 2011.

Between 2002 and 2010, average cropland values in the United States of America increased by around 75% albeit at varying annual rates. Average arable values (US$ per hectare) in the UK trebled during the same period. Growth has continued in both areas with a further 9.4% recorded in the US and 11% in the UK in 2011.

The Index shows the rate of growth in both Australia (300%) and New Zealand (262%) have outperformed the US and UK between 2002 and 2010 with farmland here proving to be a strong investment choice (see more detail on page 6).

Less developed countries, including Africa, are also significantly affected by the international interest in farmland. When we can source reliable data we will include Africa in our Global Farmland Index.

Cost of wheat production

An innovative way of assessing investment spend relative to output is to determine the cost of acquiring land in order to grow a tonne of wheat. Our land cost to wheat production league (Graph 1.3) takes the average value of crop land in 2010 and divides it by the average harvest wheat yield over seven years (2005 to 2011). By taking a seven year period it allows for any weather fluctuations to be accounted for.

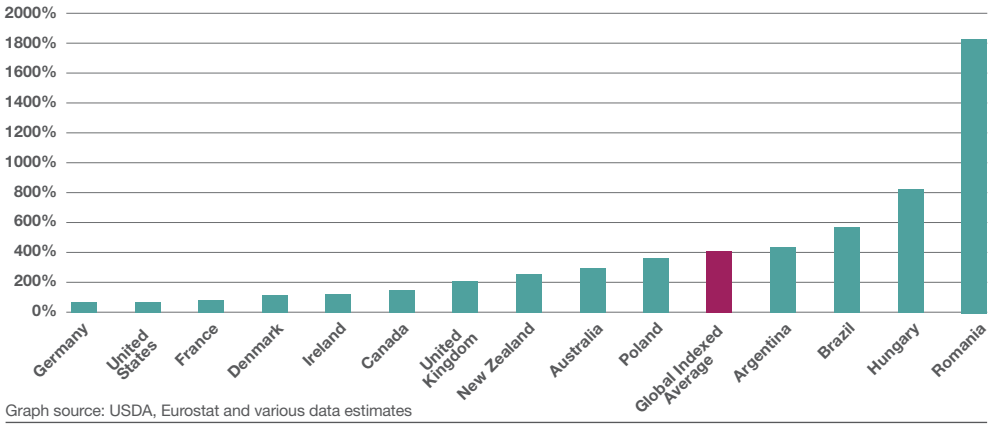
With the world wheat trade forecast to double by 2050 to 240 million tonnes, this analysis gives a clear picture of the areas, which potentially represent good investment value.

This is a good place to start but does not replace detailed due diligence in order to identify the right property and exact location, taking into account all relevant market factors (see page 12 for more on Risk Appraisal). The key to future investment performance is the potential to increase output and capital value balanced with a reasonable risk profile.

Our research illustrates that in Denmark, Ireland, New Zealand, Brazil, the UK and the US, a land cost of more than $2,000 will be required to produce a tonne of wheat whereas in Australia and Hungary the same output will incur a land cost of well below $1,000.

GRAPH 1.2

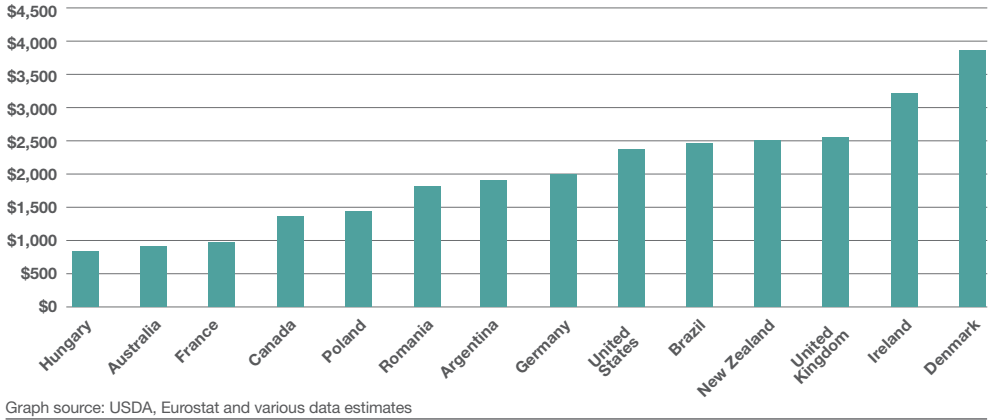
Global index (% increase 2002 to 2010)



Graph source: USDA, Eurostat and various data estimates

GRAPH 1.3

Cost of land per tonne of wheat production



Graph source: USDA, Eurostat and various data estimates

Farmland values in 2011

From the data available, the general trend in values in 2011 in US$ (USD) per hectare was:

■ **Europe**. Average UK values were up 11% at $22,264 per hectare in 2011, but following a correction in prices, Denmark witnessed a fall from $27,853 in 2010 to $26,346 in 2011.

■ **Central Europe**. Although statistical data is not available, farmland values in Romania and Poland reportedly continued to strengthen throughout 2011.

■ **Australasia**. Average farmland values rose by 15% in New South Wales and 11% in Western Australia to an average value of $1,606 per hectare in 2011. New Zealand witnessed a 29% increase in average values to $24,488 per hectare.

■ **South America**. Argentina reported a 24% rise in average land values to $6,508 per hectare.

■ **North America**. The US witnessed a 9% rise in average farmland values to $7,487 per hectare.

Investment performance
A CREDITABLE ALTERNATIVE

With an increasing interest in this 'safe haven' sector, farmland values on a global scale continue to outperform many other assets

The investment performance of farmland continues to outstrip that of many alternative assets. As interest grows in this sector, it is proving to be an investment 'safe haven' during these uncertain times.

Investors include Sovereign Wealth Funds (National governments), institutions (both public and private), private family offices, individuals, investment funds and corporate/pension funds, all of which regard farmland as a positive addition to a diversified portfolio.

While income return and capital appreciation are key components to overall performance. Historically, capital appreciation has been the main reward for investors, but with higher commodity prices and the opportunity to invest in areas where farming has underperformed, the income return is potentially higher. Unsurprisingly, like any investment the best returns often come with the highest risks.

Top performers

Higher, but more volatile returns are typically achieved from exposure to hands-on operational farming as opposed to the often lower, less risky, more stable returns to the landowner accrued by renting the land. Graphs 2.1 and 2.2 however, illustrate the outstanding performance of rural property assets in the UK and US respectively and confirm that excellent returns can still be achieved in these mature farmland markets.

In the UK, the investment performance of farmland (in hand farming and let land) and forestry has outperformed most other assets over the past 10 years and has been comparable with alternative assets over the past 30 years, with the exception of residential property (see Graph 2.1). This trend continued through 2011 with only gilts recording a similar performance to farmland.

In the US, a similar picture has emerged (see Graph 2.2), with farmland outperforming all other asset classes over the past 15 years with the exception of last year when all asset classes performed well and forestry topped the investment performance league.

Total return data is not readily available for many countries. However, analysis of the capital growth since 2002 of the three core property assets, farmland, commercial (all property) and residential, clearly shows that farmland has consistently been the top performer.

Our research looked at the annualised capital growth of these assets between 2002 and 2011, where data could be sourced for the countries included in our Global Index.

In several countries, including the UK and Australia, farmland significantly outperformed the other assets. France was the exception, where land values remained relatively stable compared to its neighbours. In France, the organisation SAFER approves all land acquisitions and encourages sales to local farmers making it more difficult, but not impossible, for investors to purchase.

"In the UK, the investment performance of farmland and forestry has outperformed all other assets over the past 10 years" Ian Bailey, Savills Research

Agricultural diversity

Pension funds, although coming from a very low base, tend to be the largest institutional investors in many industrialised economies and they increasingly make agricultural investments in locations, where there are large tracts of farmland available and stable land rights,

such as Australia and New Zealand.

As a result, agriculture accounts for a small but growing share of pension fund activity. According to 2011 figures, of the US$32 trillion of assets managed by pension funds, between US$5 billion and US$15 billion already goes directly into farmland investments.

Recent research conducted by the Land Matrix Partnership (LMP) reveals that the interest by pension funds is in both food and non-food crops. LMP reports that food production accounts for 34% of investments, non-food crops for 26%, 'flex crops' for 23% and multiple uses 17%. This illustrates the diversity of opportunities, which attract investors to farmland.

Maximising performance

Maximising the performance of farmland as an asset is closely linked to a well timed purchase and disposal. The question is when and in which country to invest? The emerging markets of Central Europe, South America and Africa are increasingly becoming the target of investors.

The main reason being, the most significant increases in income returns are most likely to be in areas where there is available land, entry values are lower and often agricultural production is currently underperforming.

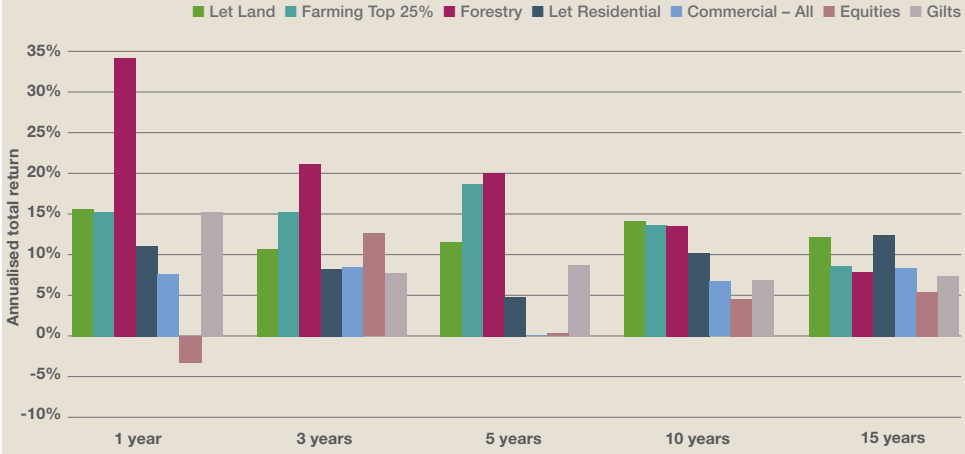
However, there is often a greater risk investing in these emerging markets (see page 12 for more details) due to political and economic uncertainty. In addition, the term 'land grabbing' is now used more frequently and there has been increased pressure from individuals, non-governmental organisations and environmental activists, who promote the negative social and environmental issues surrounding global farmland investment.

This has resulted in a group of pension funds launching a set of 'Principles for Responsible Investment in Farmland' (PRI Working Farmland Group).

The World Bank calls for increased transparency and monitoring, arguing that in some countries, where demand for land has recently boomed, there has often been limited screening of proposals, lack of due diligence and weak contracts, combined with an overriding air of secrecy.

GRAPH 2.1

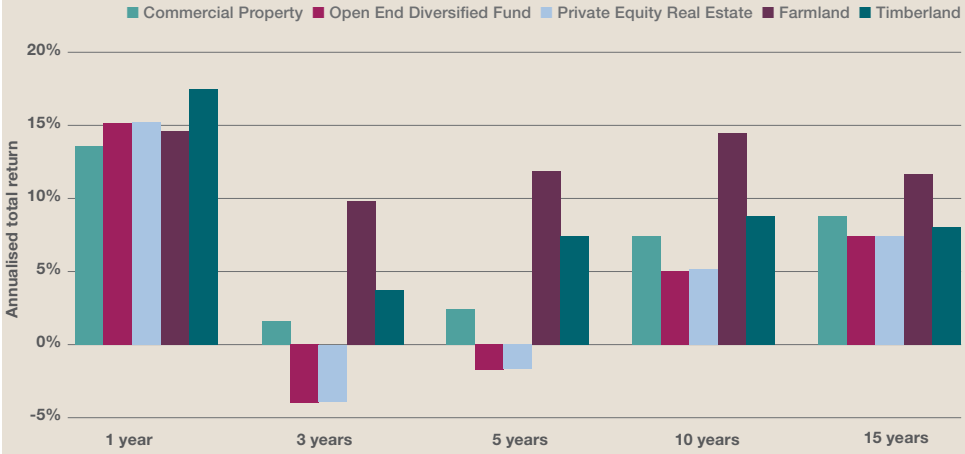
UK Investment Performance



Graph source: IPD/Savills Research to Dec 2011 (The IPD UK Forestry Index sample is predominantly Sitka spruce)

GRAPH 2.2

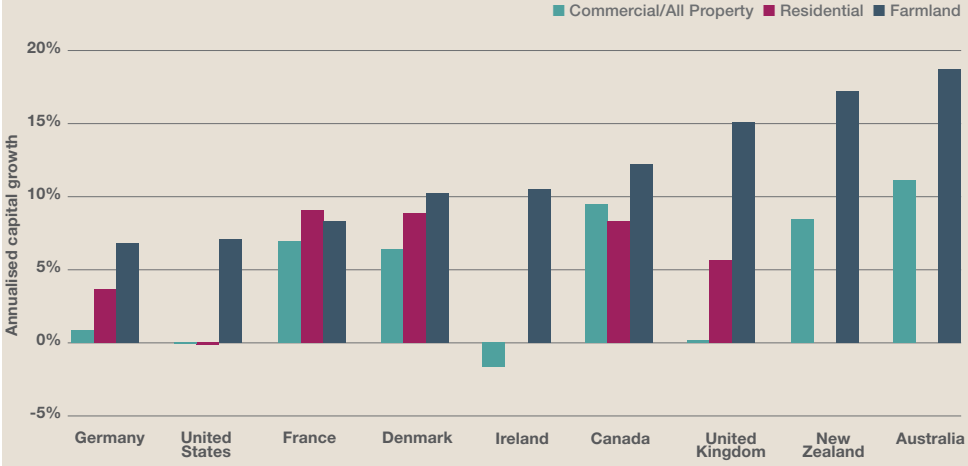
USA Investment Performance



Graph source: NCREIF

GRAPH 2.3

Global Capital Growth (Annualised 2002-2010)

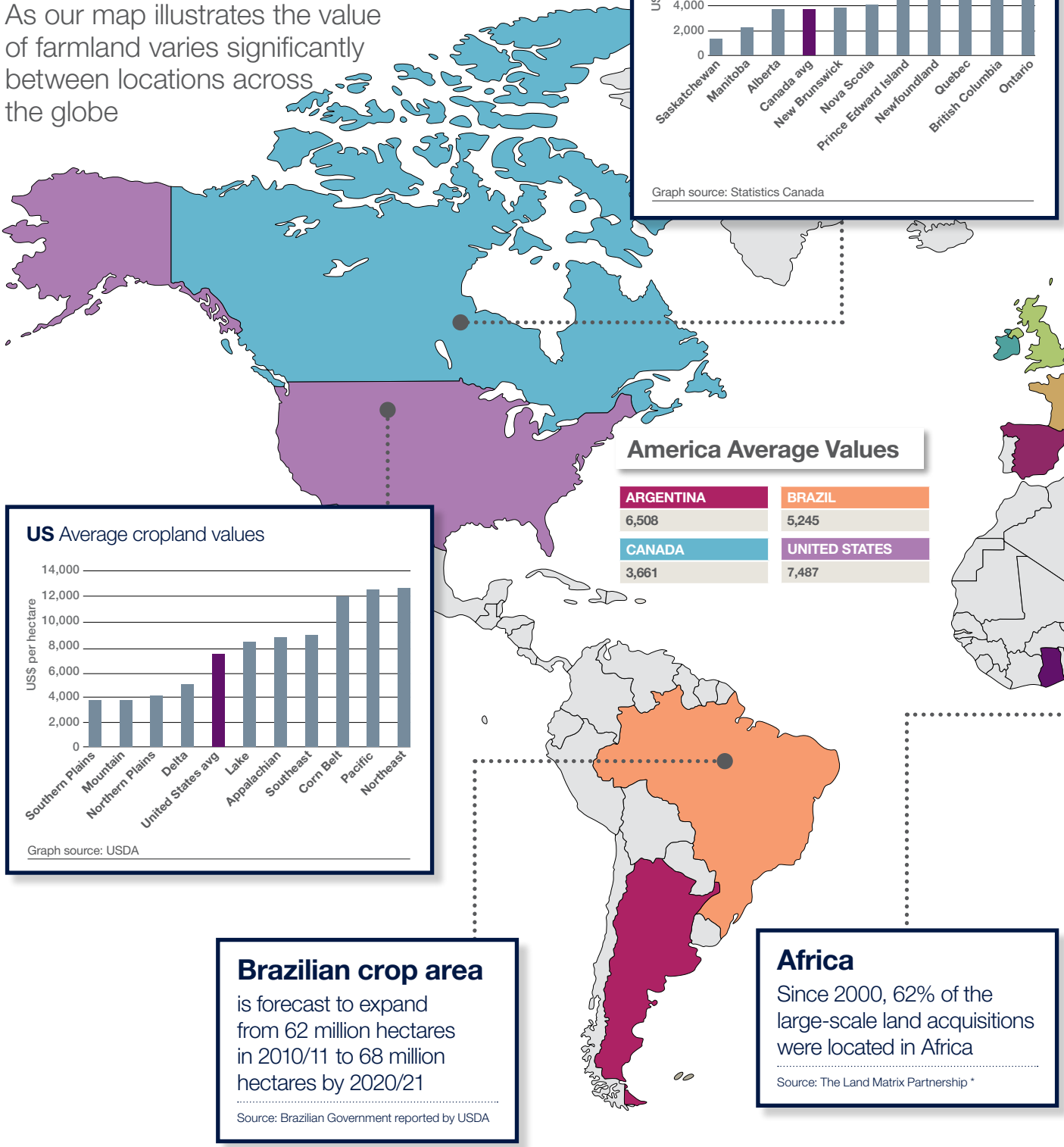


Graph source: Savills analysis using IPD, USDA, Eurostat and various data estimates

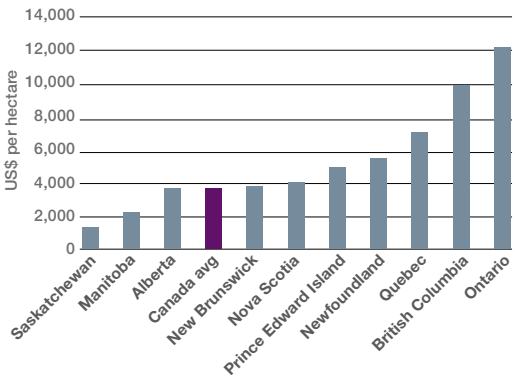
Global snapshot

A WORLD OF OPPORTUNITY

As our map illustrates the value of farmland varies significantly between locations across the globe



Canada Average farmland values by province



Graph source: Statistics Canada

America Average Values

ARGENTINA	BRAZIL
6,508	5,245
CANADA	**UNITED STATES**
3,661	7,487

US Average cropland values

Graph source: USDA

Brazilian crop area

is forecast to expand from 62 million hectares in 2010/11 to 68 million hectares by 2020/21

Source: Brazilian Government reported by USDA

Africa

Since 2000, 62% of the large-scale land acquisitions were located in Africa

Source: The Land Matrix Partnership *

* The Land Matrix project records transactions that entail a transfer of rights to use, control or own land through sale, lease or concession.

Europe Average Values

BULGARIA	CZECH REPUBLIC	DENMARK	FRANCE	GERMANY	HUNGARY	IRELAND
2,112	3,129	26,346	6,919	15,173	3,859	29,918

LATVIA	LITHUANIA	MOLDOVA	NETHERLANDS	POLAND	ROMANIA	RUSSIA
1,411	1,351	1,722	65,449	5,685	5,030	1,140

SLOVAKIA	SPAIN	SWEDEN	UKRAINE	UNITED KINGDOM
1,748	16,079	5,213	1,152	22,264

Key
Latest Average Values Available
All values USD per Hectare

Europe Top 5 (USD per ha)

1. Netherlands	65,449
2. Ireland	29,918
3. Denmark	26,346
4. United Kingdom	22,264
5. Spain	16,079

Source: Savills Research and various data sources

India

India is forecast to become the world's leading beef exporter in 2012

Source: USDA

Australia & Oceania Average Values

AUSTRALIA (New South Wales)	AUSTRALIA (Western Australia)
1,409	1,802

NEW ZEALAND
24,488

Australia in figures

Average farmland values grew by 352% between 2002 and 2011

Source: NSW Government

Africa Average Values

BOTSWANA	GHANA	MAURITIUS
1,200	100	35,000

MOZAMBIQUE	NAMIBIA	SWAZILAND
800	1,100	1,100

SOUTH AFRICA	TANZANIA	ZAMBIA
2,989	1,900	800

Case study

AUSTRALIA REMAINS A LAND OF POTENTIAL

Proximity to Asia, significant government investment, availability of new land and a strong record of value growth makes Australia an attractive prospect

Richard Price, of Price Sevenson, provides an overview of the Australian farmland market.

Agricultural land values in many regions of the developed world, where it is considered politically and economically safe to invest, bear little to no relationship with productive earnings capacity. This can not be said of Australia. With the exception of farms located close to the major cities, Australia still offers a rural land investment environment where land values are supported by their respective earnings potential in a safe environment relative to today's political and economic turmoil.

Another differentiator in Australia is that, unlike most of the developed world, where land for agricultural production is increasingly coming under other land-use pressures, new virgin productive irrigated agricultural land is being opened up, developed and released to the public by the Australian Government.

Australia's proximity to Asia is also set to drive future growth. It is predicted that within eight years there will be four billion people across Asia, equating to half of the world's population, who will enjoy economic growth forecasted at around 10% per year.

TABLE 4.1

Au$ capital cost (approximate) to acquire one tonne of grain production in different regions of Australia.

Capital per MT of Grain	Au$
New South Wales, Wagga	$900 - $1000
New South Wales, Moree	$1250 +
Victoria, Southern Wimmera	$1000 - $1200
Victoria, Western District	$1250 +
South Australia, Yorke Peninsula	$1500 - $1700
Western Australia, Esperance	$950 - $1000
Western Australia, Jerramungup	$750 - $850
Western Australia, Wongan Hills	$1200 - $1300
Western Australia, Geraldton	$850 - $1150

Table source: Price Sevenson

Australian farming in perspective

Fast facts

- 417.3 million hectares of land managed by agricultural businesses
- 134,000 farm businesses, 99% of which are family owned and operated. Owning, managing and caring for 61% of Australia's land mass
- Agriculture has reduced greenhouse gas emissions by 40% between 1990-2006. The Australian Government spends over $3.5 billion annually on natural resource management
- 19 million hectares of arable farmland nationally cropped using zero-till technologies
- Each farmer produces enough food to feed 600 people, 150 at home and 450 overseas
- Australian farmers produce almost 93% of Australia's daily domestic food supply
- Domestic expenditure on food and liquor grew 6% in 2009-10, to around $125 billion
- Australian farmers export around 60% of what they grow and produced export earnings of $32.5 billion in 2010-11
- There are 307,000 people employed in Australian agriculture with the entire value chain providing over 1.6 million jobs to the Australian economy (accounting for 17.2% of the nation's labour force)
- Farm-gate agriculture contributes 3% to Australia's total gross domestic product (GDP), approximately 12% when including the entire value chain
- Gross value of Australian farm production in 2010-11 was $48.7 billion and $155 billion for the entire value chain
- Productivity growth, $1.5 billion annual spend on agricultural and rural research and development, driving 2.8% growth per annum over the past three decades
- Current exchange rate (July 16)
  AU$ 1 : 1.02 US$
  AU$ 1 : 0.66 UK£

($ shown as Au$, data source: National Farmers Federation)

"Australia takes agricultural productivity growth seriously, spending approximately Au$1.5 billion annually" Richard Price, Price Sevenson

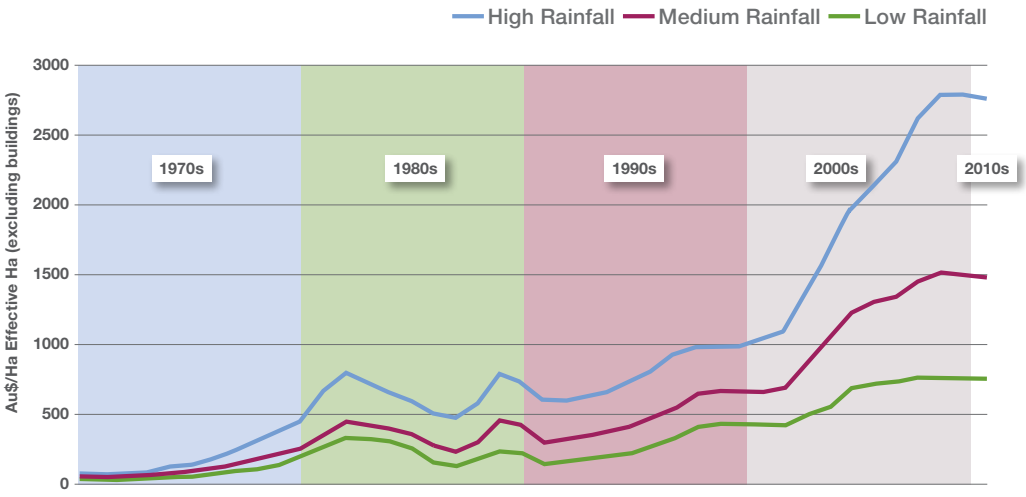
This rapidly growing, affluent population throughout the region is associated with an increasing appetite for higher protein content in the diet.

Australia takes agricultural productivity growth seriously, spending approximately Au$1.5 billion on agriculture and rural research and development annually. This has driven a 2.8% annual productivity growth over the past three decades.

All this adds up to unprecedented new farming and land ownership opportunities in a nation predicting over 4.5% GDP growth in 2012 and located on the doorstep of Asia's growing demand.

GRAPH 4.1

Western Australia broadacre farmland value trends by decade Au$/ha



Graph source: LandGate Rural Watch to June 30, 2011 and Price Sevenson

Focus on: Western Australia

The region's growers produced record grain crop figures in 2011

With the world wheat trade forecast to double by 2050 to 240 million tonnes (MT), Western Australia's commercial wheat belt is worthy of a closer look when considering where to acquire land internationally for the following reasons: it is near to Asia, has an export-orientated (90% of grain production exported) highly efficient arable sector, has a relatively low cost of acquisition to produce a tonne of grain in comparison to other grain producing regions globally and a strong historic economic track record.

Western Australia's wheat belt stretches for approximately 1000km from Geraldton in the north to Esperance in the south of the state and is comparable in landmass to the UK.

Last year, Western Australia produced its record grain crop with growers delivering approximately 14.6MT of grain.

Land values are driven primarily by rainfall, yield and reliability of annual yield, proximity to regional centres and civic infrastructure. Land is zoned according to its annual rainfall; low (up to 325mm), medium (325 to 450mm) and high (above 450 to 750mm).

Current commercial land values range from approximately Au$500/ha in the more remote, lower rainfall regions to Au$3000/ha in the high rainfall, more reliable areas. Land values may also range considerably outside of these parameters based on proximity to infrastructure, soil type and local demand.

Return on capital (land value) in the top 25% of Western Australia's broadacre farms for the medium and high rainfall regions has been a respectable 10.5% average over the past 11 years with an annual range of 4.2% to 20.1%.

Land values over the same period in many regions have doubled and in some regions trebled.

Land values are currently showing signs of coming off their recent highs, which may encourage investment in economic, productive family farms and large scale aggregations.

Risk appraisal
A DEEPER UNDERSTANDING

International farmland investments require careful data analysis and experienced judgement to assess different investment opportunities

A successful investment decision requires a thorough understanding of the chosen market, and an appraisal of the risks relative to the potential returns. Savills Research has developed a Risk and Return Matrix to identify the relative country scores in terms of farmland investment. Brief notes are given on each of the main risks.

The scores are derived from several factors and include a measurement of our own experience and knowledge. The scores given are an indication of the relative risks in and between each country and should only be regarded as such. The basket of countries used in the matrix is the same as that used in the Global Farmland Index (see page 4) which has countries in both mature and emerging markets in order to illustrate the diversity of risk.

The range of farmland investment opportunities in the global market place is now plentiful. Although the types of risk may be similar, there are significant differences in the weightings for factors such as climate and infrastructure, between regions within countries.

Political risk. Successful investments must include robust entry and exit strategies. The score for this risk includes the following factors:

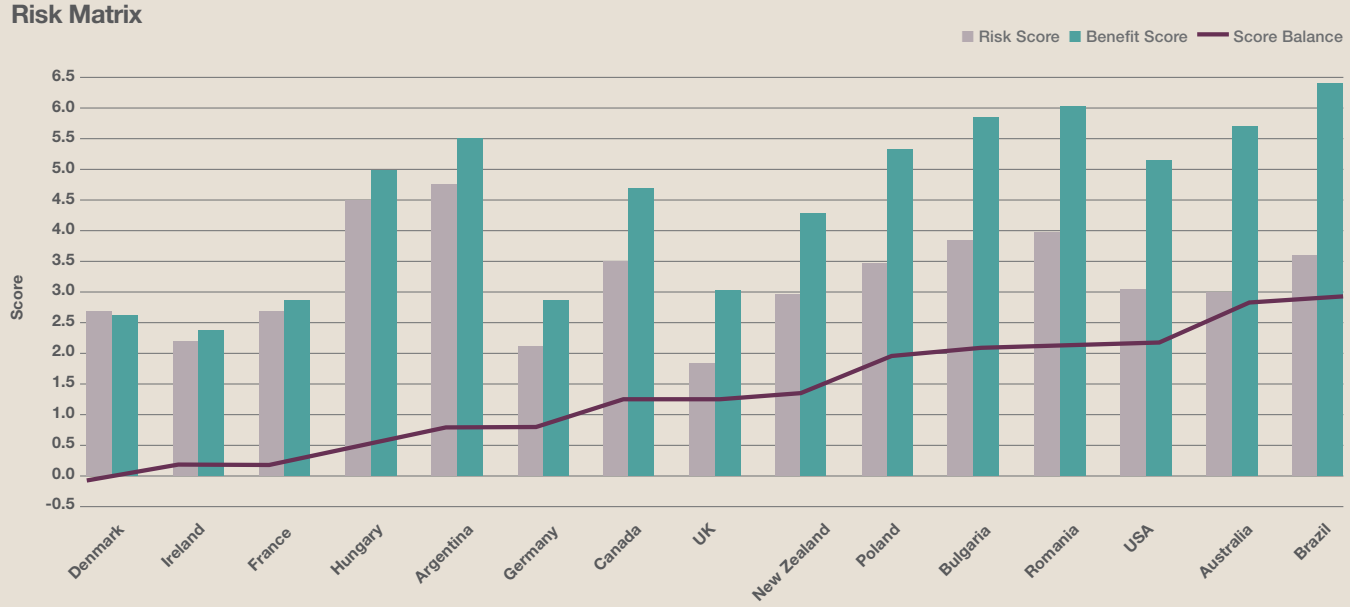
Assessing the risk

THE RISK SCORE (the lower the better) is derived from a matrix, which appraises a range of potential risks. To some degree, these can be categorised into those where the investor has no control, such as political/economic stability and weather, and those where some control might be possible to alleviate the extent of the risk. This, for example, could include location, which takes advantage of the current infrastructure.

THE BENEFIT SCORE (the higher the better) is derived from a matrix of factors, which identify potential agronomic advantage and investment returns.

THE SCORE BALANCE (the higher the better) is calculated by subtracting the Risk Score from the Benefit Score. Graph 5.1 illustrates the three components with the Score Balance showing the potentially best opportunities ranked low to high from the left side of the graph.

GRAPH 5.1
Risk Matrix



Graph source: Savills. Various reports and data sources (listed below) were used to lay the foundations of the matrix but this was overlaid with our experience and knowledge to ensure the final overall scoring/ranking for each country is realistic and current.

Risk Matrix Data Sources: Freedom House, Control Risks, World Bank, Food and Agriculture Organisation of the United Nations (FAO), Bank of England (BoE), Datapult, World Economic Forum (WEF), International Land Coalition (ILC), Organisation for Economic Co-operation and Development (OECD)

- Political and Civil Rights
- Political and Security Rating
- Foreign Ownership Restrictions

Currency volatility against the US dollar will have an effect on the opportunities and benefits of overseas trade.

Climate is critical for agriculture and affects the growth and maturity of crops and livestock. It must be noted that there can be significant variations between regions within a country, which will determine the most suitable enterprise and crop types. Weather conditions will fluctuate from year to year making an understanding of the average, the range of rainfall and the frequency of drought essential.

Fiscal Policy, including, taxation will have a fundamental effect on any investment. Our research includes information/indices on the areas listed below:

- Country Credit Rating
- Policy making transparency
- Extent and Effect of Taxation
- Prevalence of Trade Barriers
- Loan accessibility

GDP Growth annualised over 5, 10 and 20 years gives a measure of the historic short and long-term economic wellbeing of the country providing a useful indication for future economic sustainability.

Liquidity of the farmland market is essential for both entry and exit. An active market of large-scale farms, where the advantages of economies of scale can be tapped into and income returns maximised, is not available in every country. Our expertise and local knowledge, along with an understanding of average plot size and overall transaction levels, feeds into this score.

Infrastructure is of paramount importance for access to farms and to transport outputs to markets economically. In addition, an appraisal of the availability and provision of utilities and services including electricity and telecoms is essential.

Subsidisation of agriculture has, in several parts of the world, become an integral part of farm incomes. The current and long-term agricultural policy is hugely influential.

Research and Development activity is a useful area to consider as part of the longer term investment strategy. This is to have a grasp of the willingness of governments and industry to embrace new technology.

Agronomic potential of any investment is probably the most important area to understand as the success of the whole investment will hinge on the land being managed by a successful farm business.

However, it is a complex subject and requires local agribusiness expertise and experience. In many cases, the highest agronomic potential is in areas where the risk score is highest. Our Benefit Scoring attempts to indicate the relative opportunities between countries and factors in:

- **Scaleability** – the opportunity to farm large-scale holdings, maximising economies of scale
- **Soil quality** – but care should be taken in the final due diligence as this varies across countries
- **Potential for yield/output increases** – but will require top quality management with the correct resources to maximise
- **Water availability** – either natural sources or the potential for irrigation
- **Sustainabilit**y – this is high on the agenda of consumers and retailers across the world, who will ultimately be the purchasers of farm outputs.

> "The agronomic potential of any investment is probably the most important single factor to understand"
>
> Ian Bailey, Savills Research

Summary of results

Brazil and Australia top the table for investment opportunities. The opportunity for large scale farming is a key driver in both countries, but location is critical, with the best opportunities requiring adequate rainfall/water, good soils and infrastructure. Australia also scores well politically, economically and the liquidity of the farmland market is good.

Although Argentina and Brazil show similar benefit scores, the Rural Land Law passed in Argentina in late 2011 has severely limited foreign ownership in the country. In Brazil, there have been similar calls to limit foreign ownership and in August 2010 sales to foreign investors were suspended while the law was reviewed. However, the government in Brazil is expected to approve a less restrictive proposal for farmland ownership by foreigners.

The Central European countries surveyed, with the exception of Hungary, have a good balance score driven by strong potential returns from good agronomic performance and the opportunity for large scale farming. The score balance is slightly dampened by political/economic uncertainty and the current restrictions on foreign ownership, many of which will expire once the accession deregulation periods come to an end.

The UK sits roughly in the middle of the table and still represents a good place for farmland investment, although it falls down in terms of farm scale and a low turnover in the farmland market.

Although political and economic uncertainty is low across Western Europe, the markets in Denmark and France are still restrictive to foreign ownership, and in Ireland, large scale farming opportunities are rare, hence these countries feature at the bottom end of the scale.

There is a reasonable amount of acquisitive activity in Africa but a lack of complete data has precluded us from including African countries in our matrix. The available evidence does suggest this is a continent with high growth potential in the agricultural sector, where long-term under-investment offers exciting opportunities. However, the risks and challenges are high, with potential investors seen as 'land grabbers'. At a practical level the risks include land tenure and poor infrastructure.

Global outlook

LAND REMAINS A PRIME ASSET

The future of farmland as an international investment remains positive as it continues to outperform other markets

Our research illustrates the strong performance of agricultural assets at a global level. We believe that the overarching trend in the direction of capital growth across world farmland markets will be positive.

Agriculture will be fundamental to feeding growing populations and the prime asset, along with water, is land and each hectare will need to continue to produce food for more people (see Table 6.1).

It is clear that this will have to done in a sustainable way, protecting the world's key resources of land, water, minerals and biodiversity.

Farmland and agriculture, more than most alternative investments, are diverse and requires a thorough and detailed understanding of the industry.

The issues extend well beyond those that impact directly on the farming operation to encompass the political and economic landscapes, which can sometimes change without much warning.

The key points of our analysis include:

■ Our Global Farmland Index (in US$ per hectare) shows that farmland values across the globe have increased upto 1,800% during the past decade, with the highest growth recorded in the emerging markets. Although capital appreciation, especially in the more restricted western European markets, has slowed in the past two years.

■ Scale is crucial for maximising performance. Australia, where scale is obtainable and values reflect agricultural productivity, scores well when the cost of land per tonne of wheat production is benchmarked. Its proximity to Asian markets adds an extra dimension.

■ Farmland continues to outperform residential and commercial property investments in many places across the globe, and in mature markets, has a good track record of being a safe and reliable investment over the past 30 years, with excellent performance in recent years.

We expect recent performance levels to be maintained.

■ Farmland is a product where income and capital value, depending on location, can be maximised across a diverse range of uses. Principally for food production but including energy production, and non agricultural development.

■ Risk appraisal and due diligence are essential for underpinning any investment strategy. Our Risk and Return Matrix indicates the relative positions of the opportunities at a country level. It should be noted that, for many factors such as soil type, rainfall and infrastructure, there are significant differences within countries at regional and local levels. Full assessment requires experienced local knowledge.

■ As with most investment opportunities, the highest potential returns are those which potentially carry the highest risk. These returns are highest where there is the opportunity to maximise scale and increase output through the effective use of resources. The matrix scores the balance between risk and return.

■ Brazil and Australia top the league for investment opportunities. Central Europe scores well in several cases but we expect their position to improve once the accession deregulation periods come to an end.

■ Although the UK represents a good place to invest, it sits in the middle of the table as scale and product are limited.

■ The key to success will be identifying, acquiring and managing the correct investment to maximise the investor's criteria and expectations.

TABLE 6.1

Number supported by single 'global' hectare

Year	Number of people Average 'Global' Arable Hectare Feeds
1960	2.4 
2005	4.5 
2050	Will need to support 6.1 to 6.5 (est.) 

Table source: Savills Research

Savills International Rural team

Please contact us for further information

Ian Bailey
Head of Rural Research
+44 (0)1797 230 156
ibailey@savills.com

Nicola Buckingham
Research Analyst
+44 (0)1398 332 170
nbuckingham@savills.com

Hugh Coghill
Director International
Land Markets
+44 (0)20 7016 3818
hcoghill@savills.com

Ken Jones
Director International
Land Markets
+44 (0)20 7016 3712
kjones@savills.com

Richard Price
Price Sevenson Pty Ltd
+61 (0)400 396 035
rprice@pricesevenson.com

Henry Wilkes
CEO, InvestAg Savills
+44 (0)20 7016 3752
hwilkes@investagsavills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

Price Sevenson Pty Ltd has a track record of successfully placing and managing substantial investments into farmland.