

# Spotlight on...

## International farmland markets 2009

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Across the globe the value of farmland is traditionally driven by its productive capacity but increasingly there are other demands upon it, which are influencing value. Around areas of high population density, for example, there is a growing demand for amenity use. Investors are now regular buyers of farmland where they seek a low-

risk investment and a hedge against inflation. However, it is important to put these competing demands for farmland into context, which is one of low turnover and, in most cases, it is relatively small (25-acre) plots that change hands.

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► Generally the buyers of farmland can be split into the following profiles:

■ **Farmers** – the individuals or companies whose primary motive is the generation of income from farming. The recent strength of commodity prices and the relative stability of the Single Payment Scheme of the Common Agricultural Policy (CAP) has restored some confidence into this group of buyers. Also, historically low interest rates throughout the EU will alleviate some of the economic pressure brought about by the recession. Graph 1 illustrates the varying strength of the link between farm incomes and values.

■ **Investors** – these buyers are motivated by capital appreciation and the potential to increase income. Their focus, therefore, is commercial farmland. Maximising the performance of this asset is closely linked to a well-timed purchase and disposal. The most significant increases in income returns are most likely to be in areas where entry values are low or agricultural production is currently underperforming. Both these aspects could apply to parts of Central Eastern European Countries (CEECs) and South America, where investment can produce significant gains in comparison to countries where values are high or production is already maximised. Whilst rising income returns benefit capital values, where there is the potential for the highest returns there is often a greater risk attached. The opportunity to capitalise on increasing income by injecting funds and skilled management has attracted interest from investment funds. These investment funds offer the opportunity for investors to diversify their portfolios into agriculture and interest is high and at levels not seen since the activity of pensions funds in the UK in the late 1980s.

Farm ownership is more attractive than commodity futures/indices or publicly traded shares in agribusiness companies. Although there is still an active interest in these funds, new fundraising is more difficult as potential investors have more pressing commitments for their capital in the current economic climate.

■ **Non-farmers** whose primary motives are lifestyle. These buyers are generally interested in properties where the residential and amenity aspects are as good if not better than the agricultural productivity. Their presence

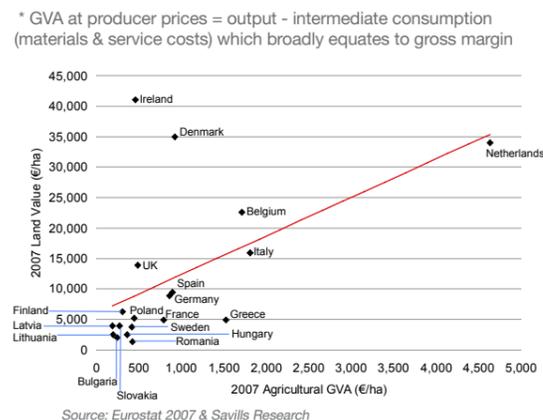
in the market is more marked in some countries and regions, these include the UK, Ireland, and regions with good transport links to cities and big towns. It is likely however, that as transport and communication networks become increasingly global and the economy improves, that previously unexploited regions could become new destinations of choice adding another dimension to the supply/demand equation.

Any of the above profiles may include non-domestic buyers who play a part in some markets; in Ireland and the UK they have been a significant and important source of demand for some years. Outside influences (people, skills, technology and capital) have also been the driving force behind investment into the agricultural industry in developing markets. ■

Comparative data on farmland values across the globe, especially in the developing markets such as the (CEECs) is not readily available, but our research uses Eurostat, USDA and national data sources along with our knowledge of local markets.

Exchange rate fluctuations and currency movements often mask the true extent of movement in average farmland values when measured in the domestic currency. Table 1 illustrates three examples showing the range of variation possible and therefore the care needed in discussing the trends in values. ■

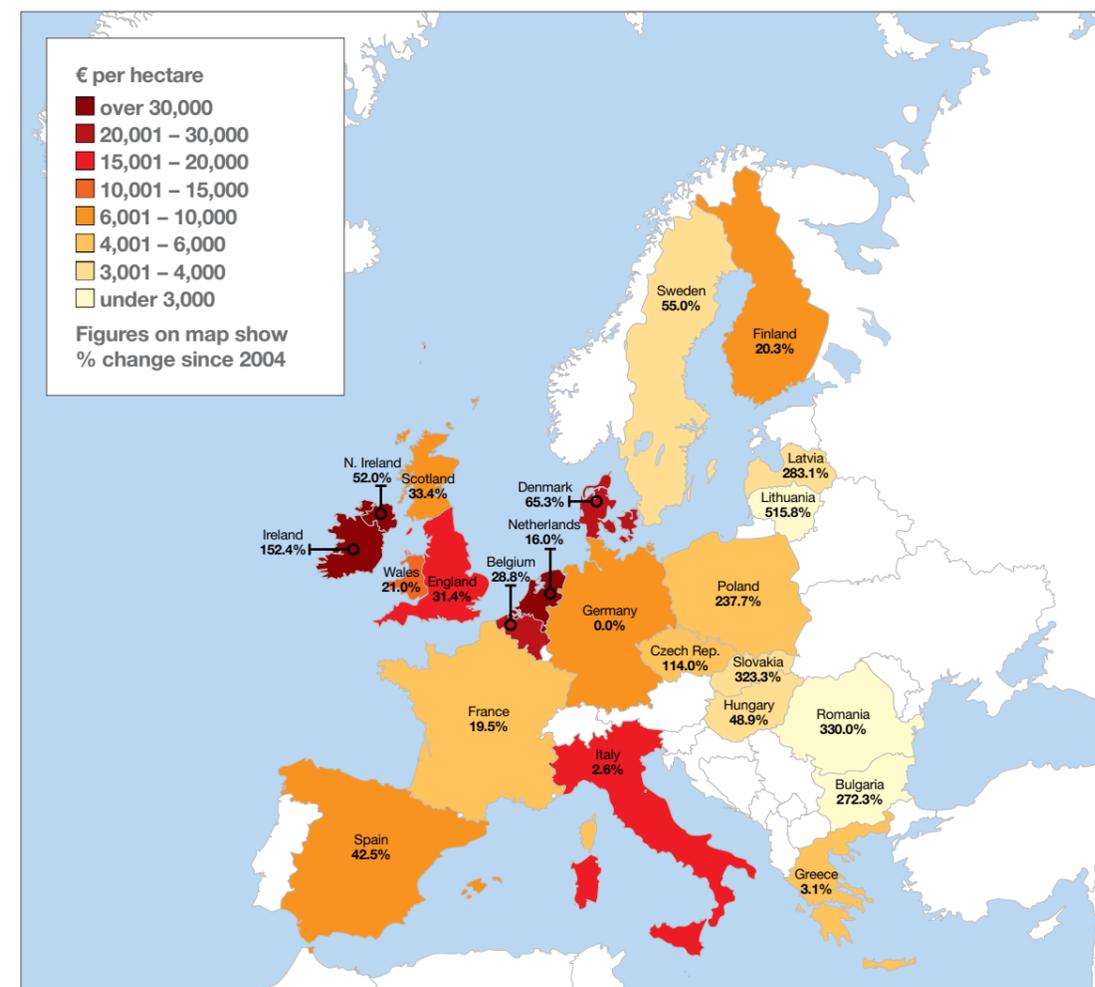
**Graph 1**  
Average EU land values v. agricultural GVA\*



**Table 1**  
Change in average farmland values 2004 to 2008

	Domestic	Euros
England (Pound £)	104%	31%
Denmark (Krone DKK)	65%	65%
Sweden (Krona SEK)	82%	55%

**Map 1**  
Average farmland values across Europe



**Europe including CEEC and Ireland**

Our analysis of European land values shows that values have, in general, continued to increase across Europe over the past few years, mirroring the trend we have witnessed in Ireland. However, not all European countries has seen the significant gains recorded in the Irish market.

Map 1 of Europe clearly shows that the increases in value have been significantly higher in the CEECs than across the rest of Europe when measured in Euros.

**Ireland**

The increase in farmland values in Eire has been phenomenal during the past few years with values reaching over €65,000 per hectare in 2006. This rise in values was driven by the strong demand from City purchasers wishing to buy a country residence and taking advantage of the improved transport infrastructure. Confidence was high and credit was readily available.

Since then the market has changed and values have fallen back. Initially, this was very slowly but recently the

decline has been more dramatic. By the end of 2008, as the full effect of the credit crunch took hold, values averaged around €40,000 (still an increase of 150% since 2004) with farmer buyers now underpinning the limited acres available to buy. This market remains tiny with only just over 14,000 hectares sold in 2008 – just 0.3% of the total agricultural area. The average area sold per transaction was 45 hectares.

The market is equally constrained in Northern Ireland where average values are around €36,000 per hectare, up by just over 50% since 2004.

**Great Britain**

In Great Britain, Savills Farmland Value Survey showed that to the end of 2008 the average value for all types of farmland increased by 21% to £4,200 per acre (€11,400 per hectare). The average value of grade 3 arable land increased 16% during 2008 to £4,400 per acre (€12,000 per hectare). These patterns were mirrored in England, Scotland and Wales and across average pasture land values.



► However, the bull-run of recent years appears to have come to an end with average values falling 6.5% (in sterling) during the second half of 2008. Our latest research shows that this downward pressure continued (albeit at a reduced rate) during the first quarter of this year. As with all markets, average values tend to mask a significant range in values and the British farmland market is no exception.

Over the past few years values have been driven by very strong demand from farmers, investors and non-farmers, for whom lifestyle has been the primary motive behind a purchase. The presence of the latter has declined during the current economic downturn, but weak sterling has increased the opportunities for overseas buyers who, until 2003, represented up to 6% of UK farm buyers.

During the past six years there has been a significant increase in overseas buyers, who now represent between 10% and 20% of all buyers of farms over 50 acres in the UK. Buyers from Ireland (mainly from Northern Ireland) who were able to sell at home and buy four to five times more land in the UK have represented up to 5% of buyers in some years. The Danes have been very active in the past three years, buying around 10% of all farms marketed in the UK. In 2008 the Danes and Irish represented 9.4% and 4.2% of all buyers respectively, comparable with their activity in 2007.

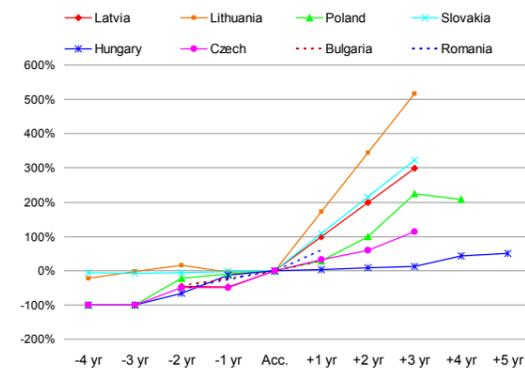
### Mainland Europe

Across the English channel into mainland Europe values have been more stable with demand from the lifestyle/amenity buyer weaker than in the countries already profiled. There are, however, exceptions:

#### France

In France, average values are relatively low and stable at just under €5,000 per hectare. The low population density and sheer volume of land are factors here. France can be split into three main zones with the lowest values, at below €3,000 per hectare, found in the central strip (from east to west). The highest value land, at more than €5,000 per hectare, is in the North of the country and the values in the South of France are somewhere in between, at more than €4,000 per hectare.

**Graph 3**  
Change in farmland values from year of accession



Source: Savills Research using Eurostat, national data and various market sources

### Germany

Average values in Germany have been relatively stable with annual increases roughly in line with inflation. Values currently average around €10,000 per hectare in a market with a turnover of approximately only 0.6% – a similar proportion of the market to the UK. Average values in West Germany are around €15,000 per hectare, whereas in East Germany they average around €5,000 per hectare. Although there is pressure on farmers in East Germany to buy their land (either from ongoing privatisation or by owners or heirs who are not active farmers and are selling their land) market activity has remained unchanged.

### The Netherlands and Denmark

The Netherlands and Denmark have some of the highest values in Europe, just below Ireland. Here the markets are restricted and demand for land is high in order that the stocking rate demands in place via pollution and environmental regulations are fulfilled. However, recent increases in value have taken a knock and market information suggests that values in Denmark have fallen back around 20% from their peak of around €34,000 per hectare.

### Central Eastern European Countries (CEECs)

It is now more than two years since Romania and Bulgaria joined the EU and almost five years since the Baltic States, Hungary, Poland, Slovakia, the Czech Republic, and Slovenia, the large block of eight Central Eastern European Countries (CEEC) acceded to the EU on the 1st May 2004. Average land values in the CEECs are well below those of most of the rest of Europe; France, Greece and Finland being the exceptions. Values range from just over €2,000 per hectare in Romania to just over €5,000 per hectare in Poland and the Czech Republic.

However, as has happened in previous accessions to the EU, values have significantly increased post-accession with rises of several hundred per cent recorded as illustrated in Map 1 and Graph 3. In recent months, as elsewhere, values have stabilised (Romania) or eased slightly, with corrections of up to 10% to 20% recorded in Bulgaria and 5% in Poland.

The economies of these countries have benefited from EU membership and there has been consistent growth in GDP across the whole region during the past few years to 2008. According to the forecasts for GDP growth, these countries, with some exceptions, are likely to weather the economic storm slightly better than the UK and the Eurozone.

The CEECs are benefitting from a significant annual increase in agricultural subsidies. Also, in a number of countries there are large areas of good commercial farmland, which in places, is underperforming through lack of capital investment and infrastructure. Therefore investment performance in these areas can benefit from the injection of capital. ■



### USA

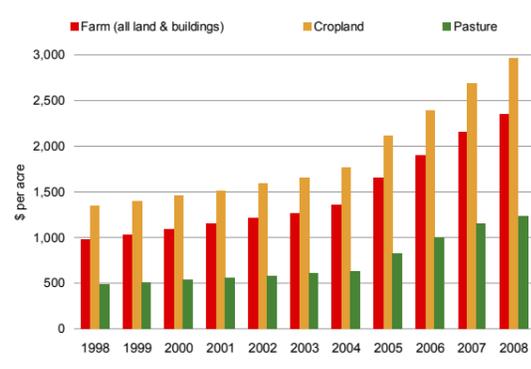
The latest data from the United States Department of Agriculture (USDA) shows that the average value of farms (all land and buildings on farms) across the USA increased 9% in the year to 1st January 2008 to a record high of \$2,350 per acre. Graph 4 shows that significant growth was also recorded in the same period for the average value of cropland (10%) and pasture land (6%).

Regional increases in average farmland values ranged from 1.6% in the North East region to 1.5% in the Northern Plains region. The highest values remain in the North East region where development pressure pushed values up to over \$5,000 per acre.

Cropland values were also up in all regions with the largest increase of 18.8% in the Northern Plains region to \$1,390 per acre. The Corn Belt region recorded a 15% increase to \$4,260 per acre with the Southern plains recording a similar increase to \$1,490 per acre.

The highest growth (19.7%) in pasture values was recorded in the Northern Plains region to \$565 per acre. In the Southern Plains and Mountain regions, which account for more than half of the pasture in the USA, values increased 17.1% and 6.4% respectively.

**Graph 4**  
Average USA farmland values (by type)



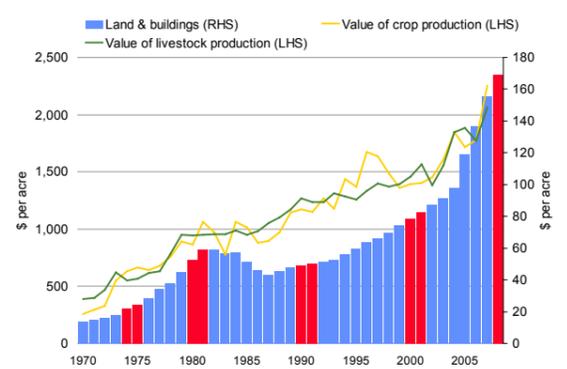
Source: USDA (data corresponds to 12 months before 1st Jan each year)

USDA reports that the increase in values continues to be driven by strong commodity prices and farm programmes, outside investments, favourable interest rates and tax incentives, and continued commercial and residential development. The increase in pasture land values was predominantly influenced by livestock prices, recreational use and urban development.

These influences are ensuring that farmland values and agriculture are likely to remain fairly resilient to the current recessionary pressure as in previous recessions illustrated in Graph 5, which tracks values back to 1970.

Inflation in the USA, measured as the Consumer Price Index (CPI), has been relatively stable since 2000 averaging just under 3%. Also, the growth in the value of crop and livestock output has been relatively strong over the same period. A fall in values during the early 1980s corresponded to a period of high inflation (over 10%). ■

**Graph 5**  
USA farmland values and farm output



Source: USDA



► Canada

Farmland values continue to rise in Canada, although growth continues to be slower than in neighbouring USA. The average value of farmland in Canada increased 5.8% during the first half of 2008 to \$1,340 per acre.

Graph 6 shows that in all provinces average farmland values have increased during the past 25 years.

Although farmland values are low and stable in Saskatchewan relative to other parts of the country they increased by 5.6% during the first half of 2008, which follows two previous half yearly increases. Demand for land in this region is driven by local expansion and out of the region by buyers and investors.

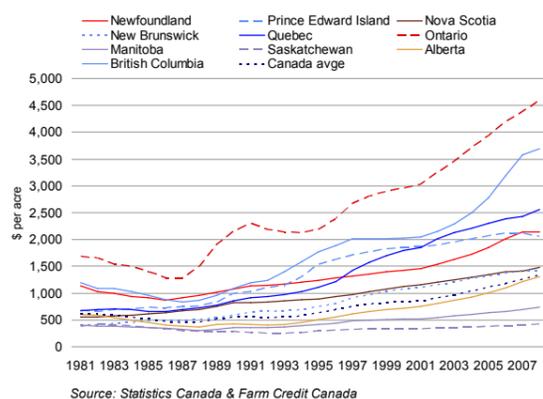
Average farmland values, at over \$4,500 per acre, are highest in Ontario. The market here is mainly influenced by strong commodity prices and, despite rising costs, Farm Credit Canada report that the optimism of cash crop operators in the first half of 2008 was the strongest it had been for several years.

The largest increase (6.7%) in the first half of 2008 was recorded in Alberta, where average values reached \$1,300 per acre. The strong grain and oilseeds markets contributed to this rise. Speculative buying around urban centres and for commercial development along the main highway corridor also added support to the market.

The falling world commodity prices and global recession will no doubt impact on values. Although agriculture and farmland values, as noted above, have proved resilient in the past. ■

“The optimism of cash crop operators in the first half of 2008 was the strongest it had been for several years.”

**Graph 6**  
Average Canadian farmland values



South America

Farmland values in South American countries have followed the same upward trend as recorded elsewhere. These countries are of great interest to the fund managers, who are looking for agricultural investments with the potential for strong performance in income returns, as well as capital appreciation.

South America has vast areas of land including some not in full agricultural production and where water is not a limiting factor. In addition, the infrastructure with access to ports and processors is good and local land values reflect this. Where working capital and high levels of management skills are available the potential to increase profitability from the under-utilised areas is high. Although there are some risks from politics and the general economic situation, these risks are counterbalanced by the potential returns that can be achieved.

The main countries of interest in South America are Brazil, Argentina, Uruguay and Paraguay.

Brazil is the largest country with a population of around 189 million and enjoys a healthy democratic system with a sound economy. Brazilian agriculture represents around 28% of GDP and around 44% of the country's exports.

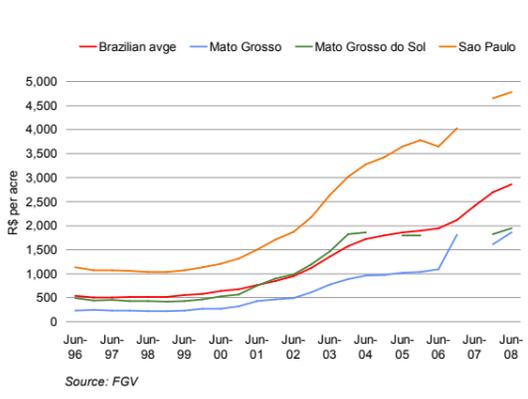
In Brazil, as illustrated in Graph 7, values have increased significantly, although the rise has been greater in some regions than in others. Average values across Brazil have increased around 350% since the beginning of 2000.

However, average values stabilised at around R\$1,850 per acre in 2005 following annual increases of between 30% and 40% in the preceding few years. Growth resumed in 2006 at 12% and then increased by 27% in 2007 and around 20% in the first half of 2008.

The picture is the same across Argentina where significant increases have been recorded in all land types during the past few years. The highest growth rates were recorded in the second-quality land where the potential to increase performance is highest.

Often the second-quality land can be upgraded with investment in irrigation to enable double cropping therefore leading to a significant increase in productivity and capital value.

**Graph 7**  
Average Brazilian farmland values



“In Brazil, values have increased significantly, although the rise has been greater in some regions than in others.”

Our research shows that the average value of second-quality cropping land across Argentina increased by more than 230% between 2003 and 2007 with some regions, notably La Pampa, Córdoba, and El Chaco, recording increases well in excess of 300%.

Last year we commented on the sentiment of investors shifting away from the long-established Argentinian land market into the less-governed Uruguayan economy. Anecdotal evidence suggest that investors still see Uruguay as a solid destination to invest capital but possibly perceive 2008 values as being high.

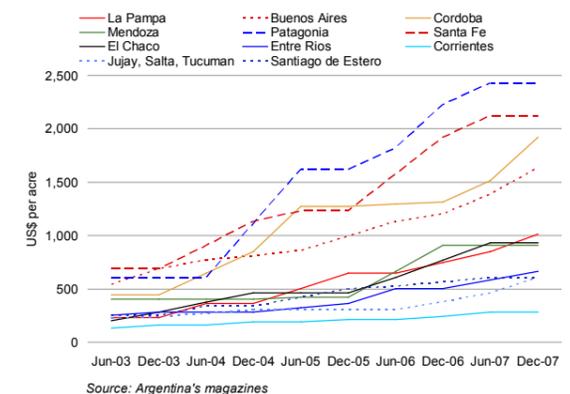
Paraguay is the fourth country in the region where the value of farmland is growing. The recently elected government is positively promoting biofuels as a way to develop the rural economy and have reduced VAT to 2% in order to stimulate external investment. We believe these incentives will only have a positive effect on the farmland market in the region.

However, in Paraguay and to a lesser extent Uruguay, there appears to be a growing sentiment against foreign ownership of farmland, which is linked into the spike in global food prices last year.

The capital growth in farmland recorded in South America in the past few years, mirrors the exceptional rise in values recorded in the CEECs where the potential to increase agricultural profitability is also high. However, the recession and the general world economic situation have had an effect and there are conflicting views as

to what extent values have been influenced. Some anecdotal evidence suggests that values have reached a plateau (eased back in external currencies) in recent months in line with other parts of the world, whilst other reports suggest otherwise with values in some parts perceived to be too high for investors. ■

**Graph 8**  
Average 2nd quality cropping land values in Argentina



► Australia

Farmland values in Australia are fundamentally driven by agricultural activities, and values here have, once again, followed a similar pattern to other mature farmland markets such as the UK. Collated data is not easy to obtain but Graph 9 illustrates the trend.

In New South Wales the average value of wheat-producing properties increased 100% to just over \$500 per acre during the five years up to 2008. Good quality grazing land increased by up to 125% to around \$1,100 per acre over the same period. Capital growth in 2008 was generally higher than in 2007.

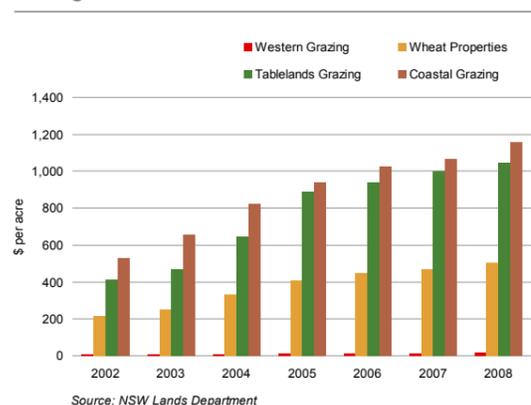
The latest data for Victoria reveals that, in 2007, the average value of cereal farms was \$713 per acre, up 15% on 2006. Beef farms averaged \$2,000 per acre (+17%) and dairy farms \$3,000 per acre (-15%).

Recent reports suggest that rural property values across Australia have held up well, despite the global economic crisis around the world, as the agricultural fundamentals have remained sound. Australian agriculture is seen by many large local and international investors as a 'safe' place to invest and there is reported activity of companies buying to either diversify or consolidate their portfolios.

These companies appear to be driven by issues which include:

- Food security in the South East Asian countries
- Economics of low-cost grass-fed beef
- Possible effects of carbon emissions schemes especially on the cost of grass-fed beef
- The demand for cheaper cuts of meat due to economic constraints. ■

Graph 9  
Average New South Wales farmland values



New Zealand

The latest data shows that until June 2008 average farmland values in New Zealand continued their upward trend. Since 2000 growth in dairy and arable land has been very strong as illustrated by Graph 10.

During the first half of 2008 average dairy pasture values increased by 25% to \$14,085 per acre, giving total growth since 2000 of 224%. Average arable values followed the same pattern, recording increases of 39% and 290% respectively to reach a value of \$12,881 per acre.

The average value of livestock fattening and grazing land increased during the first half of 2008, although not to the levels recorded for dairy and arable land. Fattening land increased by 8% to just under \$5,000 per acre and grazing land by 17% to \$2,140 per acre.

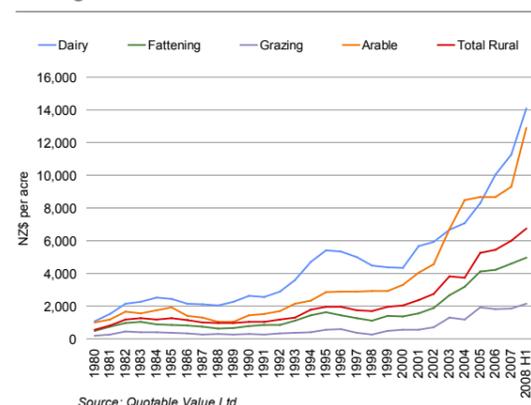
Farm incomes are the key driver of values in New Zealand but the National Bank in New Zealand reported in September 2008 that the increase in land value had far outstripped growth in farm incomes.

Recent reports from our associates at PPG Wrightson show that growth in values in the second half of 2008 and into 2009 was much more constrained. In some cases it fell back as the recession dented confidence. The market is beginning to see signs of recovery, although activity is not expected to increase until their spring, which begins in September. ■

Other countries

There has been muted interest from investors and farm purchasers in the land markets of countries other than those discussed in this report. These include Russia, South Africa and India. Information and especially good comparable data is difficult to obtain but it is clear from anecdotal evidence that these countries may be of interest in the future to those funds or individuals, who are looking for new markets. It would be expected that the fundamentals of population, wealth and biofuels growth will also impact on these markets, although the political and economic risk is likely to be high. ■

Graph 10  
Average New Zealand farmland values



Global Outlook

Our research shows agricultural incomes have not been unduly hampered by past recessions. In this recession, although there is more commodity price volatility, there are undoubtedly opportunities that may not have existed in the past. A fundamental difference being low interest rates. In addition, some areas, including the most recent entrants to the EU, are enjoying a new era of subsidies. The opportunity for significant increases in profitability will undoubtedly support values in the short term and ensure they continue to rise in the medium term.

With an industry well placed to weather the current recession, we believe that farmland values across the world will generally remain robust during the current economic cycle. The lifestyle buyer may be harder to find, but a steady demand for good commercial units from farmers (not only domestic) and investors (who regard farmland as a safe haven for their money in the short term and an appreciating asset in the medium to long term) is likely to support values. The interest in farmland by investment funds will continue as investors seek to build and maintain portfolios of property assets where farmland adds the low-risk, long-term stability that has been lacking in the past.

Population growth and increased wealth will, over the long term, increase the demand for food and, as reliance moves away from fossil fuels, the demand for biofuels will increase. These pressures on a finite product will ensure that values are supported and, for the medium term, we forecast values will continue growing albeit at a much slower rate than recorded during the past few years.

“With an industry well placed to weather the current recession we believe that farmland values across the world will generally remain robust during the current economic cycle.”

The effect of climate change may shift or concentrate production in the areas of the world best suited for food production where rainfall and humidity will be key. This in the long term may also affect the farmland market. ■

Irish Outlook

One of the main driving forces behind the massive increase in Irish farmland values, peaking in 2006, was hugely increased personal wealth and readily available finance. This prompted many businessmen to purchase 40 to 60 acre farms as a lifestyle choice. Another equally significant factor was the incremental selling (by farmers) of small tracts of agricultural land for development, with the resultant proceeds being reinvested into farmland to drive prices even higher.

The global economic downturn and more specifically the credit crunch has seen farmland values fall in line with the wider Irish property market, being between 40% and 50% below peak prices or back to 2002 levels. The profile of buyer has shifted back to more traditional patterns too, with farmers again the majority buyers, although poor produce prices are currently eroding confidence and purchasing power for even this most resilient of sectors.

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