

Market in Minutes

Q1 Farmland Market

April 2013



SUMMARY

Average prime arable farmland in the UK increased by 1.9% in the first quarter of 2013

■ Farmland values continue to rise. Average prime arable farmland rose by 1.9% to £7,800 per acre across Great Britain during the first quarter of 2013.

■ The market remains diverse with the strongest growth recorded for the best commercial arable farms.

■ 13,100 acres of farmland were publicly marketed across Great Britain during the first quarter of 2013; a -28% reduction on the same period of 2012. However, there is variation across the regions with a significant reduction in supply in Scotland.

■ Overall, we do not expect a significant change to the levels of supply of farmland during this year. We acknowledge that the difficult weather conditions of the past 12 months and the associated pressure on farm incomes may lead to more sales of off-lying blocks of land and potentially more farms as debt levels increase.

“We do not expect a significant change to the levels of supply of farmland during this year”

Ian Bailey, Savills Research

➔ **Values**

Our Farmland Value Survey records average growth for prime arable farmland of 1.9% to £7,800 per acre across Great Britain during the first quarter of 2013, which is stronger than the 0.9% recorded in the same period of 2012. Total value growth for prime arable land across Great Britain during 2012 was 11.2%.

Growth during the first quarter was concentrated along the eastern side of England including the North East, where the demand for arable land remains strong (see Graph 1).

Average values now exceed £8,000 per acre, but this year there have already been transactions off and on market of large commercial investment units at over £10,000 per acre.

Average values remained unchanged for all land types across Scotland, Wales and the western regions of England.

Market diversity

The market remains diverse with the strongest growth recorded for the best commercial arable farms. In contrast smaller farms, predominantly livestock, which have a significant residential weighting are recording weaker or zero growth in values. This diversity is illustrated by two contrasting examples from our Residential Farm Model (see Graphs 2 and 3).

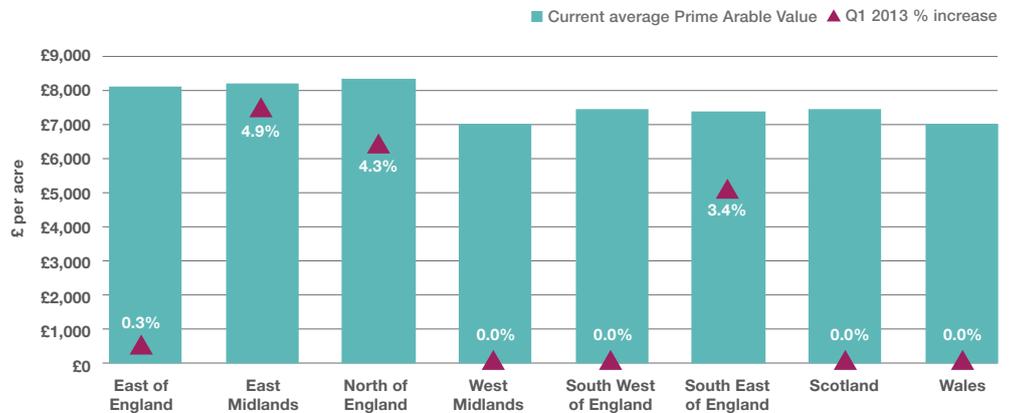
1,875-acre commercial arable farm in the East of England with a farmhouse, one three-bedroom cottage and a pair of three-bedroom semi detached cottages. The residential component of the farm in 2012 represented just over 4% of the total value (11% in 2005)

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GRAPH 1 **Quarter 1 2013 value growth concentrated in eastern regions of England**



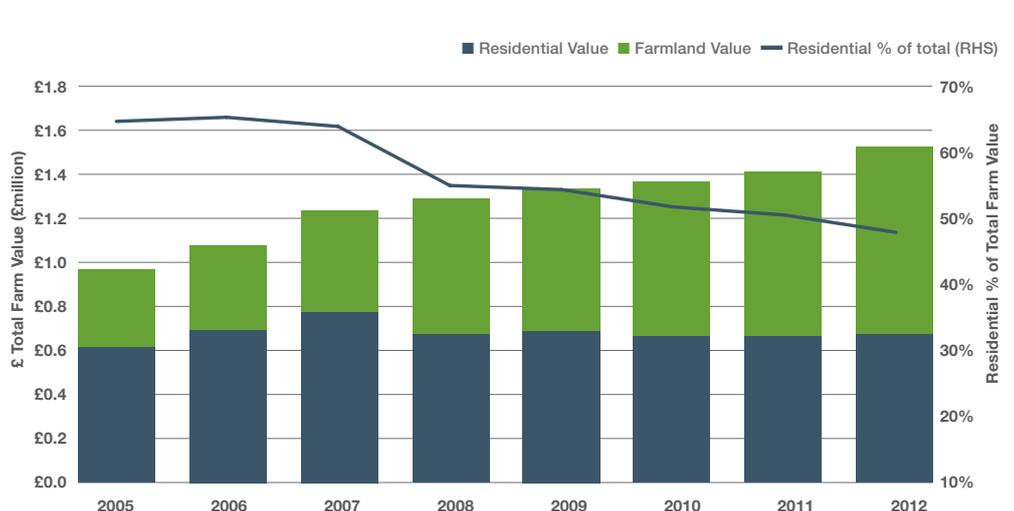
Graph source: Savills Research

GRAPH 2 **1,875 acre commercial arable farm in East of England**



Graph source: Savills Research

GRAPH 3 **150 acre livestock farm in the South West of England**



Graph source: Savills Research

→ 150-acre livestock farm in the South West of England with a farmhouse where the residential value represented 44% of the total value in 2012 (almost two-thirds in 2005).

Since 2005 the total value of the commercial arable farm has increased 180% driven by an almost doubling of the farmland value. In contrast, the total value of the livestock farm increased by just 60% – a third of the growth of the arable farm. Residential values increased just 10% over the same period on both units.

Supply 2013

Our research shows 13,100 acres of farmland were publicly marketed across Great Britain during the first quarter of 2013; a -28% reduction on the same period of 2012. This is approximately a third of the average market activity recorded between 1998 and 2000 (see Graph 4).

2013 may show a similar pattern to 2001 and 2004, when market activity dipped due to the Foot and Mouth Disease outbreak in 2001 and the run up to the introduction of the Single Farm Payment Scheme in 2004. This year the current round of CAP reform may create some uncertainty, particularly in Scotland and Wales where changes are likely to be more significant than in England.

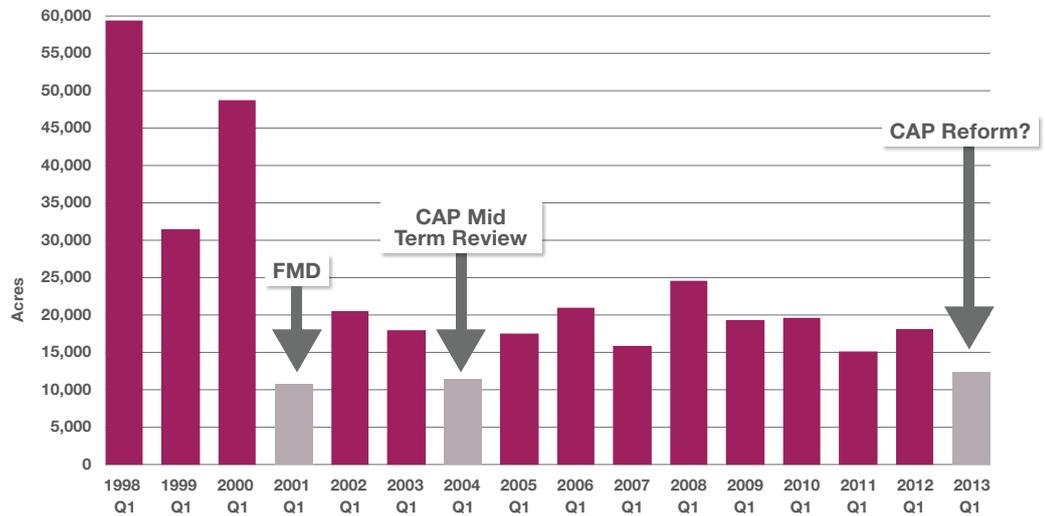
However, there is variation across the regions (see Table 1) with increased supply, compared with the first quarter of last year, in the South West of England (46%), the West Midlands (17%), and the East Midlands (65%).

Anecdotal evidence suggests debt might be a significant motive behind some of these farm sales especially in the South West of England.

In contrast, only just over 1,200 acres were publicly marketed in Scotland during the first quarter of 2013 (-77% on first quarter of 2012). This was the lowest acreage recorded since 1995. A similar pattern was recorded in the North of England (-61%), the East of England (-42%) and to a lesser degree in the South East of England (-9%).

There is no doubt the wet weather during 2012 and the difficult

GRAPH 4 Supply across Great Britain remains at low levels



Graph source: Savills Research

TABLE 1 Publicly Marketed Farmland – Quarter 1 2013

	Q1 2013 - Acres	Acres % change on Q1 2012	Q1 2013 - Number of Farms
East of England	726	-42%	8
East Midlands	2,720	65%	9
North of England	2,049	-61%	10
West Midlands	1,059	17%	11
South West of England	2,406	46%	13
South East of England	1,624	-9%	9
Scotland	1,214	-77%	11
Wales	1,269	182%	8

Table source: Savills Research

conditions, which have continued into 2013 will have an impact on the annual farmland supply.

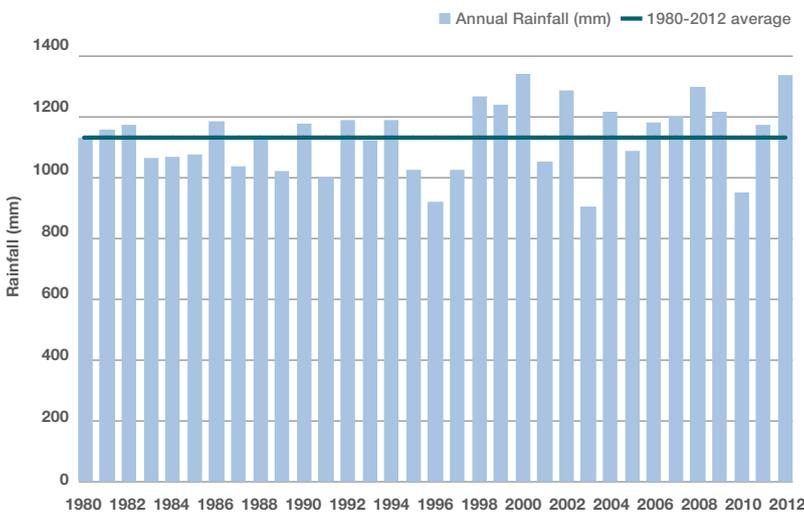
Graph 5 shows the UK annual rainfall since 1980 compared with the average over this period.

Annual rainfall in the second half of this period has been above the →

“This year the current round of CAP reform may create some uncertainty, particularly in Scotland and Wales”

Ian Bailey, Savills Research

GRAPH 5
Rainfall 1980- 2012



Graph source: Met Office analysed by Savills Research

→ average whereas the opposite was true in the earlier part of this period.

It is worth noting that 2012 recorded the highest (joint with 2000) annual rainfall at 1,337 mm, 1954 was in second place at 1,309 mm. Since 1910, the highest 10-year average was recorded in 2008.

However, as far as supply is concerned the weather could cause opposite effects:

■ On the one hand it may delay the marketing of some farms as owners choose to wait until the land has recovered;

■ On the other, the extreme conditions of the past 12 months and the exceptional cold weather of the past few weeks will increase the pressure on farm businesses, particularly in the livestock sector, where increased debt levels may lead to unplanned distressed sales. ■

OUTLOOK

The market in 2013

We do not expect a significant change to the overall levels of supply of farmland, but increased pressures on farm incomes and the delaying in the marketing of some units may lead to more sales later in the year and into next. Farmland values continued to rise during the first quarter of 2013 and we expect average values of farmland to increase by around 8% in 2013.

However, the market is diverse:

We anticipate that the good commercial arable and the best dairy farms will record the strongest growth. There continues to be a strong applicant list for large good farms and estates with plenty of unsatisfied buyers from last year and previous years waiting for the right farm to become available. These buyers are now joined by a noticeable number of new private individuals and corporate buyers in response to the high level of publicity this asset class is currently experiencing.

Those where growth rates are expected to be weaker are likely to be smaller livestock farms, which often have a significant residential component in the total value. Their performance will be more closely linked to that of the prime regional residential markets.

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