



Market Survey
UK Agricultural Land

2014



Farmland Value Survey Revisions (Footnote)

The farmland values are derived from Savills Farmland Value Survey, which is a comprehensive record of the value of a range of types and quality of bare agricultural land by region since 1992. It is based on the quarterly valuation of a static portfolio of 9 types of bare land with vacant possession in 25 regions across Great Britain by a panel of Savills agricultural valuers and others who are experts in their region. It is based on local knowledge, which is sourced primarily from local transaction information, but also takes into account special purchasers, unusual properties, and the tone of the market in the area at that time.

The survey is a general indicator of market conditions at the time of the survey, with no reference to future market conditions. The data is for general informative purposes only and should not be used as the basis of any property valuation or appraisal. Range values are not definitive and they do not indicate realisable values on a forced sale.

Savills accepts no liability whatsoever for any direct or consequential loss arising from the use of this data.

Market Survey Agricultural Land



The prospects for further growth in farmland values remain positive. However, land quality and location are becoming increasingly critical

During 2013 there was a diverse mix of active buyers in the farmland market, but while their motives for acquisition were varied, for most the land choice and location were similar. This led to high sale prices for prime arable land in the East, but weaker or zero growth for either predominantly livestock farms or those with a high proportion of the guide price tied up in the residential element.

Although the amount of farmland publicly marketed across Great Britain rose during 2013, the area marketed since 2003 has largely remained static and is significantly less than in the years prior to the millennium.

Prospects for further growth in farmland values remain positive but land quality and location are becoming increasingly critical. We discuss the key drivers and identify

potential risks which could threaten the current equilibrium.

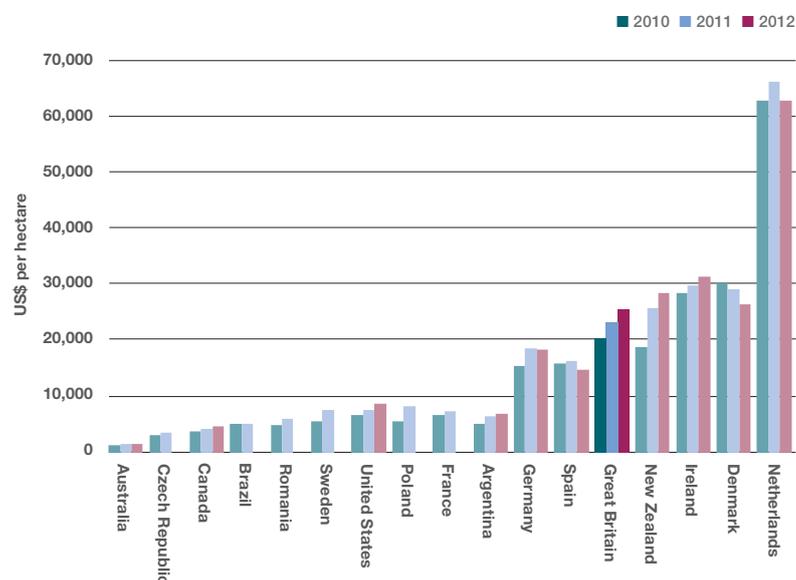
It is useful to set the UK farmland market in the context of the global farmland markets (see Graph 1).

Across the world farmland values continue to grow. Our Global Farmland Index shows an average global annualised growth since 2002 of just over 20%, while the UK equals 13%. This growth was fairly steady year-on-year apart from during 2009-10, when the rates of growth in some of the mature markets weakened.

The highest growth rates were recorded in the emerging markets of Romania, Hungary, Poland, Zambia, Mozambique and Brazil, a trend we expect to continue.

For the mature markets growth has remained healthy (from over 7% to as much as 20%), especially when compared with alternative property assets.

GRAPH 1
Global Farmland Index International context



Source: Savills Research using Eurostat & various data/estimates

EXECUTIVE SUMMARY

Key findings in this publication

■ Our 33rd Agricultural Land Market Survey reviews the performance of the farmland market in 2013, examines historical trends and considers its outlook for 2014 and beyond.

■ We put UK farmland growth into a global context via our Global Farmland Index, which shows an average annualised growth since 2002 of just over 20%, while the UK equals 13%.

■ Last year, across Great Britain, there was a diverse mix of buyers, who despite varying motives behind their purchase tended to require a similar land type in a similar location. This led to high sale prices for prime arable land in the eastern counties, but weaker or zero growth for either predominantly livestock farms or those with a high proportion of the value tied up in the residential element.

■ Average farmland values during 2013 strengthened by over 12% to £8,500 per acre with a 10-year cumulative average growth of 273%. This compares with 135% for prime central London values over the same period.

■ We expect average farmland values across Great Britain to grow at around 6% per annum over the next five years, but there will be significant variations in the rates of growth with the best performance being quality driven.

■ Across the UK the supply of farmland remains constrained with 144,000 acres publically available last year, which is 50% less than in 2000.

■ We conclude with a comparison of farmland with residential and commercial property assets.

CONTENTS

Supply & Values 2013	04
Buyers and Sellers	06
Forecasts and Outlook	07
Property Assets Comparison	09

Agricultural Land Supply and Value 2013

Supply 2013

Our research indicates that the volume of acres publicly marketed across Great Britain during 2013 is broadly similar to recent years with the long term trend line beginning to plateau.

A total of 144,000 acres of farmland were publicly marketed during 2013 and although this is an increase of 7% on the 135,000 acres of 2012, the overall picture is still one of constrained supply. Graph 2 clearly illustrates how volumes have fallen – 2013 is 18% less than in 2005 and 50% less than 2000.

Over the past 50 years turnover of farmland has fallen from around 2.5% to 0.25% of the utilisable agricultural area of Great Britain.

This report focuses on publicly marketed farmland and takes no account of the privately marketed acreage, but anecdotal evidence suggests this market represented about 30% of all land traded in 2013.

In 2013 the months of May, June, July, August and September were the most active with 75% of the year's acreage marketed in Great Britain during these months.

“Over the past 50 years turnover of farmland has fallen from around 2.5% to 0.25% of the utilisable agricultural area of Great Britain” Savills Research

England

In 2013, 91,470 acres of farmland were advertised across England. This compares with 88,700 acres in 2012 and represents a 3% increase. However, it is still 21% less than the amount of farmland marketed in England during 2011, 26% less than in 2005 and 45% less than in the year 2000 (Graph 3).

All regions across England recorded an increase in activity with the

exception of the East and South West. In the South West, both Somerset and Devon saw a fall in the volume of publicly marketed farmland and in the East of England volumes fell in all counties bar Essex.

Scotland

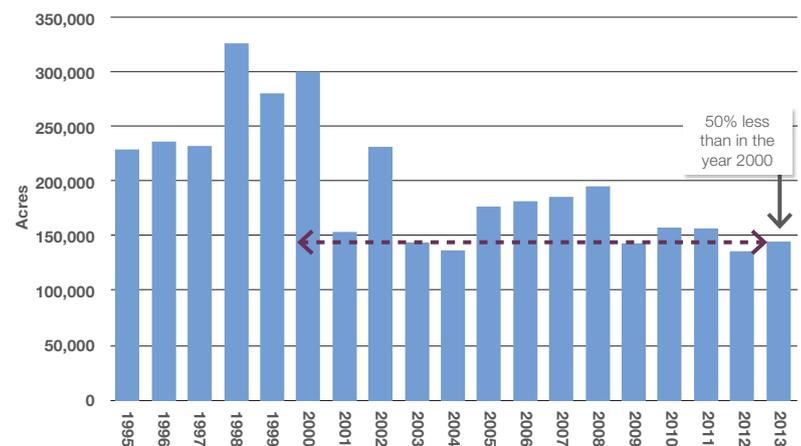
For the second year running, supply increased by 9% in Scotland with 43,300 acres of farmland publicly marketed. Although this is the highest

supply in Scotland since 2005 when 43,500 acres were publicly marketed it is still 62% less than the acreage marketed in 2000.

Wales

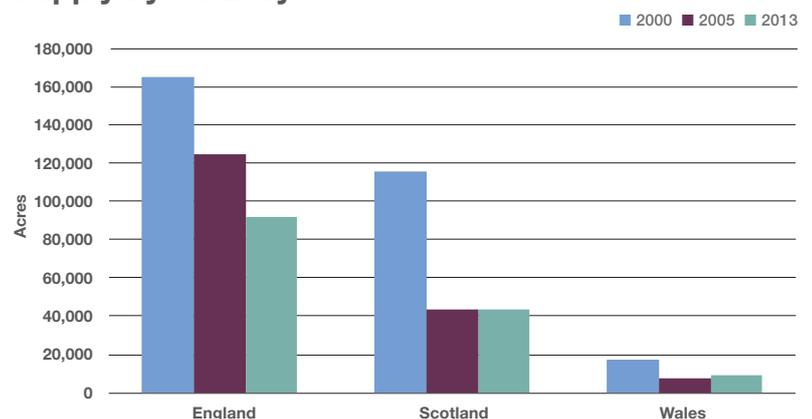
The volume of publicly marketed farmland significantly increased in Wales to 9,300 acres. When compared to 2012 this is a 37% rise but is 46% lower than the volume marketed in 2000.

GRAPH 2
Constrained supply of farmland



Source: Savills Research

GRAPH 3
Supply by Country



Source: Savills Research

Values 2013

According to the Savills Farmland Value Survey, the average value of prime arable farmland across Great Britain strengthened by 12.3% to just over £8,500 per acre in 2013. This follows an 11.2% rise in 2012 and furthermore a 273% increase in average prime arable values during the past 10 years. This compares to 135% for prime central London residential values.

England

In England, the average value of prime arable land increased by 12.8% to £8,626 per acre during 2013. This follows an 11.3% rise in 2012.

During 2013, the strongest value growth was recorded across the eastern regions of the country with prime arable land increasing by 19.4% to average just under £10,000 per acre in East Anglia, 13.8% in the East Midlands and 10.4% in the South East.

In comparison, although not insignificant, with the exception of the South West at 10.1% our research illustrates a picture of slightly softer growth across the North (7.5%) and the West Midlands (6.4%).

Scotland

In Scotland, where market activity was weak during the first half of the year prime arable land values increased on average by 6.6% to £7,941 per acre by the end of 2013. This follows a 9.9% rise in 2012.

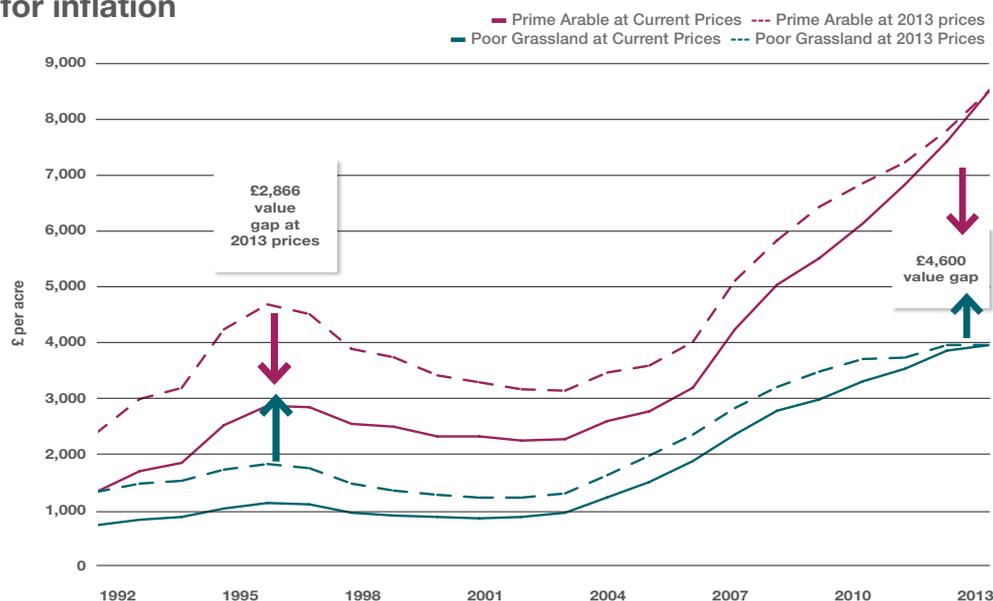
Wales

The average value of prime arable farmland remained unchanged throughout the year at £7,000 per acre. Where growth in values occurred it was at a slower rate than recorded during 2012. The strongest rise in values occurred for grade 3 arable land with growth of 3.3% to average £5,683 per acre and prime dairy land where a 2.2% increase pushed average values up to £6,135 per acre.

Growing diversity of farmland market

It is important to note that average values do hide regional variations and the farmland market remains increasingly diverse. Values are closely linked to location, land quality and type as well as the residential weighting of the farm, which has led to the widening

GRAPH 4
Average GB prime arable and poor grassland values adjusted for inflation



Source: Savills Research

in the value gap between the most and least in demand land. The gap currently is as much as £4,600 per acre.

Graph 4 illustrates farmland values adjusted for inflation and interestingly highlights a similar pattern in terms of the difference in value between the best and poorest prices paid for farmland in the mid-nineties.

In 1996, boosted by the introduction of Arable Area Payments (AAPs) in the MacSharry CAP reforms, the value gap at 2013 prices had widened to almost £2,900 per acre and during the next eight years narrowed to around £2,000 per acre until it began to widen again in 2006.

However, where poor lowland grassland is part of a larger holding including either hill land or prime arable land, which are consistently in demand; the value of some of the less profitable rough grazing is being supported.

In addition, according to the 2013 Savills/Tilhill Forest Market Report the forestry market across Great Britain has never been more active than in the last 12 months, with Scottish sales leading the way and significant growth in Wales. The average value per stocked acre which is now at £2,900 is at record levels. This has given an annualised average growth since 2002 of 15.4%. Fifty per cent more forestry property was traded in the last year compared to 2012, to the value of £97.3 million, 8.5 times the value traded in 2000.

TABLE 1
Average 'All types' Farmland Values (at Dec 2013)

	£ per acre	12 month growth	£ per acre growth
East of England	£9,200	22.2%	£1,667
East Midlands	£7,840	15.2%	£1,035
North of England	£6,130	5.2%	£305
West Midlands	£6,410	2.7%	£168
South West England	£6,510	7.2%	£436
South East England	£6,910	5.9%	£384
England	£7,150	10.2%	£663
Scotland	£4,560	3.4%	£149
Wales	£5,350	0.7%	£39

Source: Savills Research

Agricultural Land Buyers and Sellers

Our analysis of farm transactions across Great Britain, where Savills acted for the buyer or seller shows that the demand for UK farmland is diverse – both in the types of buyers and their motives. This is a key factor differentiating the farmland market from alternative investment markets. In addition to the principle motives illustrated by Graph 5:

- Farmland is seen as a ‘safe haven’ especially in turbulent economic times
- Conservation and the environment motivates farmers and conservation bodies
- Farmland is an efficient asset for the transfer of wealth
- Owning a piece of the countryside or a trophy asset motivates ‘lifestyle’ buyers

Our research shows that, over the past few years, there has been little change to the proportions of the different types of buyer. Farmers represent around half of all buyers, non-farmers/lifestyle (whose principle motive is other than income generation) another 40% and institutional/corporate buyers about a tenth.

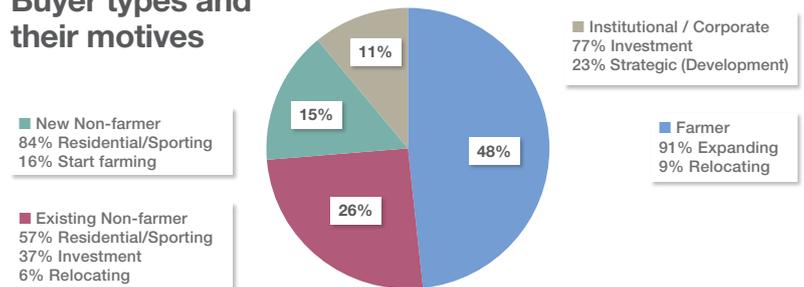
The main change since the recession is the proportion of non-farmer/lifestyle buyers making their first farmland investment. We expect this trend to reverse as the economy improves over the next few years and confidence returns to the country residential market.

The overall profile of seller type is also fairly static with:

- Farmers representing around 45% of all sellers
- Non-farmers, including private trusts around 40% and
- Institutional/corporate sellers the remaining 15%.

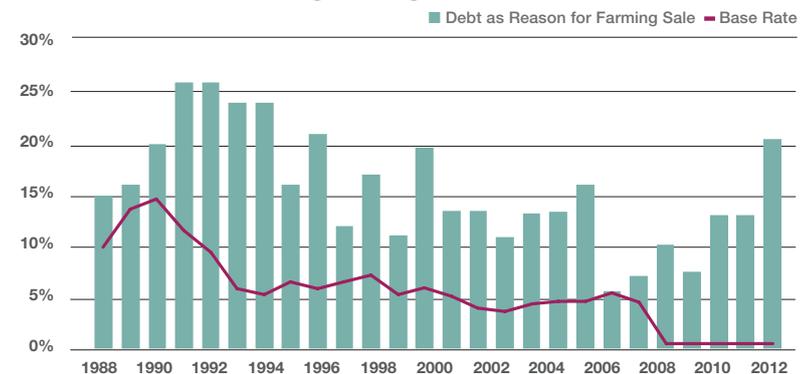
However, it is apparent that debt related sales accounted for a higher proportion of sellers. In 2013 these crept back to the highest level since 1996 (see graph 6) when interest base rates were 10%.

GRAPH 5
Buyer types and their motives



Source: Savills Research

GRAPH 6
Debt related sales again significant



Source: Savills Research

This suggests recessionary pressure, the volatility of commodity prices and some difficult physical conditions over the past two years put pressure on some rural businesses. Although the majority of debt pressure in 2013 was with farmer sellers, non-farmers with off-farm business interests were not exempt.

In addition to debt, other reasons sellers cited included:

- Relocation: 16% of sales (similar to 2012)
- Investment off-farm: 31% down from around 40% in the past two years – suggests that debt has become a more pressing issue
- Retirement, death and other personal reasons were recorded

in the remaining third of sales, which was similar to 2012 levels.

The proportion of overseas buyers in 2013 was similar to 2012 at around 8% of all buyers of which half were from the EU (excluding the UK). Activity from these buyers has some way to go to reach the 20% (mainly Danes) recorded in the mid-noughties before the credit crunch.

Cash continues to be the predominant means of purchase in over 70% of all sales. Historically low interest rates have not tempted buyers to increase the use of loans to purchase farmland with only just under a third of all buyers using debt – a level which has been consistent for the past eight years.

Agricultural Land Forecasts and Outlook

Prospects for further growth in UK farmland values remain positive but land quality and location are becoming increasingly critical.

Location as a factor of demand is a crucial component of the market. The absence of interest and competition from neighbouring landowners can have a significant impact on the outcome of marketing a farm in terms of the price achieved or if a sale is successful. This can be clearly illustrated in the Eastern counties of England.

Although prices here have outperformed other areas of the country there was a significant variation in values within this region. The thin market for quality arable farms in the right location in the East of England, notably Norfolk and Suffolk, drove consistent and strong growth across the region with average

prime arable land reaching £9,600 per acre and recording growth of over 20%.

In contrast, although still strong, average prime arable values across the East Midlands reached just under £9,000 per acre, up 14% since the beginning of the year. More diversity, especially across Lincolnshire, in terms of land quality and desirability of location created a patchier demand from buyers leading to a wider range of sale prices achieved.

Historical growth

In many ways farmland is different to other assets in that it is tangible; you can live on it, play on it, bring up your family on it and it also offers income generation opportunities and a safe haven for your cash.

The question is whether the significant growth of the past decade

is breaking new ground and will continue, at least in the short to medium term, or whether a significant correction is on the horizon?

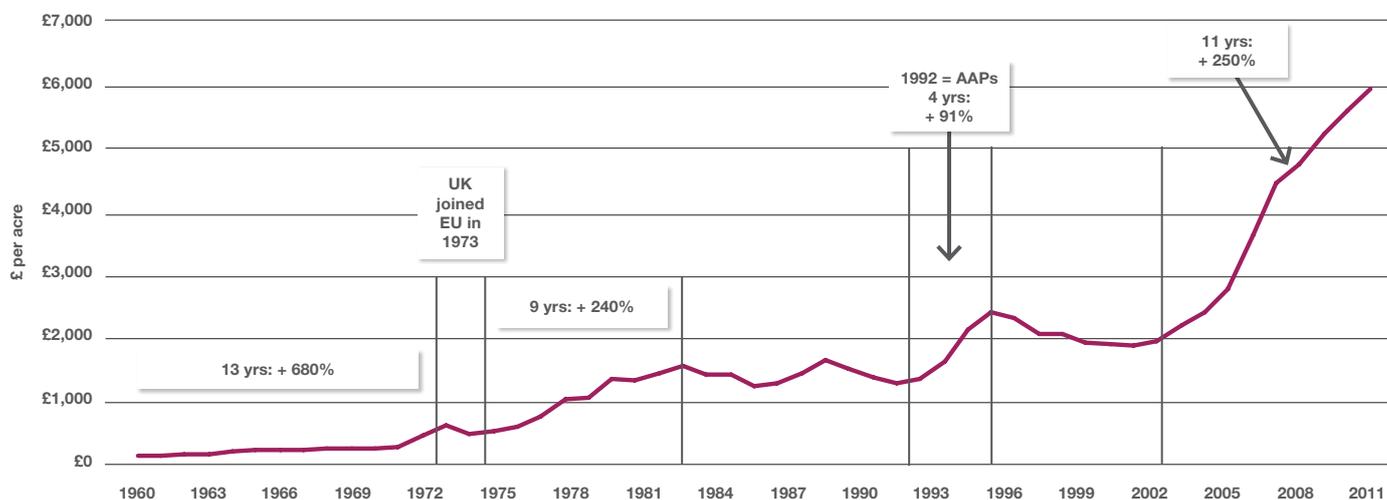
Fundamentally, land is required to produce food and with rising populations food is currently high on political agendas across the world. In the UK, history shows us that land values rise significantly when there is pressure to feed the population.

A good example is the period between 1937 to 1950 which included the Second World War (1939-1945) and created the need for greater output. This resulted in a 50% increase in arable area, guaranteed prices and assured markets bringing with it a revival of interest in agricultural prospects with a 'sellers' market being established for vacant possession land. During this period land values increased over 230% from £24 to £80 per acre.

Graph 7 shows that this pattern has been regularly repeated since 1960 with policy changes to boost income prospects also creating an environment for rapid capital growth. →

“History shows us that land values rise significantly when there is pressure to feed the population” Savills Rural Research

GRAPH 7
Long term farmland values



Source: Savills Research

TABLE 2
Our farmland forecasts

	2014	2014-18
Top Quality	8.0%	47%
All Farmland	6.0%	34%
Poor Quality	3.0%	16%

Source: Savills Research

“We expect average farmland values across the UK to grow at around 6% per annum over the next five years”

Savills Rural Research

Forecasts

Our Farmland Value Model, based on historic data back to 1975, shows that the current trend for rising average values recorded over the past 11 years (see Graph 7) is likely to continue.

We expect average farmland values across the UK to grow at around 6% per annum over the next five years, but there will be significant variations in the rates of growth with the best performance being quality driven as noted in Table 2.

Our forecast modelling factors in all the core drivers of the market, which includes farm profitability, subsidies, commodity prices, crop yields, prime rural residential markets and market supply.

Although there is currently reasonable optimism in the industry we have erred on the side of caution in modelling our land value forecasts. Despite a conservative outlook the fundamental supply and demand equation is driving average capital growth.

During the next five years we expect average growth for all types of farmland to be more muted than that recorded over the past decade (14%).

However, as we have noted throughout this report the market is diverse with quality and locational

demand driving top performance. We expect this to continue with the best commercial farmland and estates realising annual growth of towards 10%, whereas growth at the bottom end of the market is likely to be sub 5% with the value gap continuing to widen.

With the beginnings of a revival in the country residential market forecast for this year, prospects for the residential farm, which in recent years has often failed to generate interest in all but the most popular lifestyle locations such as the Cotswolds, could begin to improve. Shrewd buyers will see now as the time to take advantage of the future potential uplift in values.

Potential risk to growth

Set against this recovery there are always issues which threaten to upset the balance including interest rates, debt due to pressure on profitability and cash flows, changes to taxation and subsidy regimes – all of which have the potential to increase the supply of land available.

In addition, any uncertainty caused by the possible accession of Scotland and the 2015 General Election in the UK may also affect the supply/demand balance putting pressure on value growth.



Agricultural Land Property Assets Comparison

The UK real estate market will see a broader-based recovery this year with increasing investor interest in some secondary markets, according to international real estate adviser Savills.

Savills research has identified opportunities in the agricultural, commercial and residential property markets for this year with all sectors set to attract increased attention from domestic and non-domestic buyers in line with the economic recovery.

The top Savills research property picks for outperformance this year are as follows:

Agricultural

- Large commercial arable farms which tend to be located in the East will continue to benefit from a flight to quality, with buyers focusing on cropping flexibility and yield.
- Quality rural estates – signs of an economic recovery will encourage lifestyle buyers for estates which

TABLE 3
Savills top five performing property assets growth forecasts for 2014

Capital Growth			Rental Growth		
1st	Prime Office	10.1%	1st	Top Quality Farmland	9.0%
2nd	Residential London Portfolio	8.5%	2nd	All Farmland	7.0%
3rd	Top Quality Farmland	8.0%	3rd	Poor Quality Farmland	6.0%
4th =	Prime Retail	7.8%	4th	Prime Office	4.5%
4th =	Secondary Industrial	7.8%	5th	Residential London Portfolio	3.5%

Source: Savills Research

have a diverse property portfolio offering income potential unaffected by commodity price volatility.

- Residential farms – forecast improvements to the country residential market may offer some opportunities, but location and quality will remain key.

“The success story of agricultural land, which has increased in value by 270% over the past decade, is set to continue with five-year growth of 47% forecast. For investors looking to park equity farmland is the asset of choice,” says Ian Bailey, Savills head of rural research. →

TOP INVESTMENT PICKS FOR 2014

■ Large commercial arable farms



■ Quality rural estates



■ Residential farms



Commercial

■ Prime London offices and retail offer the best prospects for double-digit rental growth this year, with the West End remaining heavily undersupplied and City yields looking attractive. Top retail picks are luxury fringes including the streets off Bond Street, Crossrail nodes and new office locations.

■ Top seven regional city office markets of Edinburgh, Glasgow, Manchester, Birmingham, Bristol, Leeds and Cardiff, where falling vacancies, recovering tenant demand and a lack of development activity will drive a rental recovery from 2014.

■ Large sheds and local hubs – continued growth of internet retailing and delivery will drive demand for large warehouses. Challenge of last mile delivery will drive interest in local hubs.

Residential

■ London and the South East will continue to offer the highest capital growth prospects, but in straight residential investment terms the regional cities particularly those in the North offer the greatest income yield potential.

■ Second tier London boroughs including Ealing, Lewisham, Kingston upon Thames and Barnet. These markets have the potential to deliver the next phase of price growth in the capital without undue reliance on mortgage debt.

■ Rich markets in London’s hinterland such as the uber towns of Cambridge, Oxford, Bath and Winchester are likely to benefit most from the central London ripple effect in the short- to medium-term. ■



“Large commercial arable farms, which tend to be located in the East, will continue to benefit from a flight to quality”

Savills Rural Research

Savills Farm Agency team

Please contact us for further information



Ian Bailey
Head of Rural Research
01797 230 156
ibailey@savills.com



National
Alex Lawson
020 7409 8882
alawson@savills.com



Midlands
Will Parry
01522 508 921
wgparry@savills.com



Central/West
Richard Binning
01865 269 168
rbinning@savills.com



North
Andrew Pearce
01522 508 933
apearce@savills.com



East
Christopher Miles
01603 229 235
cmiles@savills.com



Scotland
Charles Dudgeon
0131 247 3702
cdudgeon@savills.com



South
David Cross
01722 426 813
dcross@savills.com



South West
Penny Dart
01392 455 747
pdart@savills.com



Wales
Rhydian Scurlock-Jones
01952 239 529
rsjones@savills.com



Research publications

Our latest reports

- **Spotlight: Key Themes for UK Real Estate 2014**
- **Scottish Estate Benchmarking Survey 2013**
- **Market in Minutes | Q3 2013 Farmland Market**
- **Spotlight | African Farmland 2013**

For more information, visit savills.co.uk/research



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.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

33 Margaret Street
London W1G 0JD
020 7499 8644

savills.co.uk

