

Market in Minutes

Q3 UK Farmland Market

October 2014



SUMMARY

In England Q3 average values for all land types increased by 3.8%

■ The acreage of farmland marketed remains constrained, which continues to support farmland price growth. Increasingly, however, reported average values conceal the extremely diverse range in values now achieved.

■ The recent and continued uncertainty in Scotland has affected the Scottish farmland market with supply reduced by -28%, compared to the same period last year, and values are unchanged. This is, in contrast to England, where average values increased for all land types by 3.8% during the quarter.

■ Prime arable land in the East of England achieved the highest average value of almost £11,000 per acre, but there are signs that growth at the top end of the market is slowing while there are tentative indications of an improving market for poorer quality land in some locations.

■ Next year there are a few factors that might increase supply and affect ongoing growth in values (see page 4). Understanding local market conditions will be critical.

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‘The acreage of farmland marketed remains constrained, which continues to support farmland price growth’

Ian Bailey, Savills Research
.....

→ **Supply**

Our research shows that just over 120,500 acres of farmland were publicly marketed across Great Britain during the first three quarters of 2014; a fall of -7% compared with the same period in 2013. However, there are significant differences between countries with Scotland seeing a -28% fall, Wales -22% while in England the acreage increased by 4%.

Supply across England continues to be historically low and our records highlight that this year the volume of publicly marketed farmland is the second lowest since 1995 (2004, the year before Single Farm Payment, being the lowest with 114,400 acres being advertised to end September).

Graph 1 illustrates, with the exception of the South West, the West Midlands and the East, that supply in all regions decreased during the first three quarters of the year.

Although supply has risen significantly, compared to the same period last year, in the East of England and the South West of England both regions recorded especially low activity in 2013.

Our supply database only records publicly marketed farmland and therefore the figures above exclude the sale of the Co-op farms portfolio, which was sold privately by Savills.

The portfolio, which was distributed throughout England and Scotland, included 17,800 acres of freehold land and an operating farming company also occupying a further 20,000 acres of third party owned land.

It was the largest farming portfolio to be offered for sale for over 20 years and was sold as a whole for £249 million. This equates to an average price achieved for the bare freehold farmland of £10,500 per acre (ranging from circa £7,000/acre up to circa £13,000/acre).

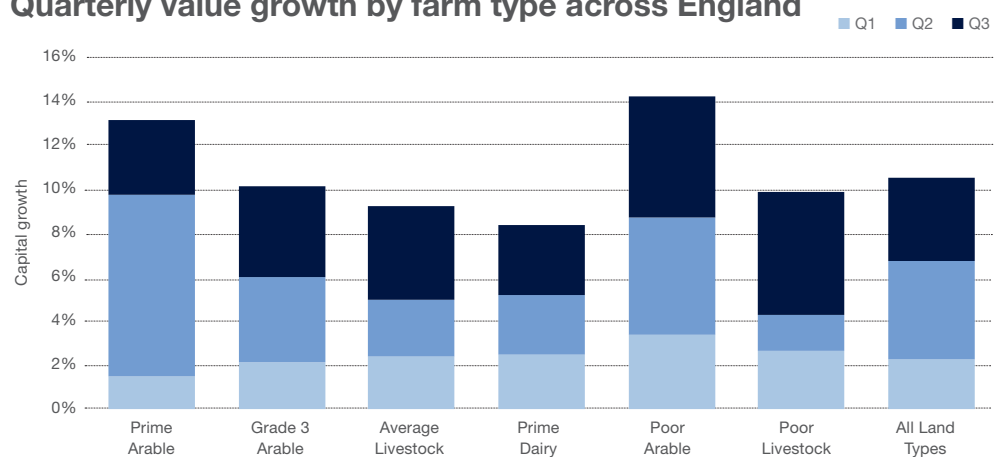
The additional area marketed on behalf of the Co-op or other private vendors, although significant, does not fundamentally alter the current historically low supply situation and its influence on values.

GRAPH 1 **Regional variation in supply** (against 2013 and the five-year average)



Source: Savills Research

GRAPH 2 **Quarterly value growth by farm type across England**



Source: Savills Research

Values

Average values continued to rise in the third quarter of 2014. However, the market remains thin and these averages mask the diverse range of values achieved.

According to our Farmland Value Survey, the average value for prime arable land strengthened by 3.2% across Great Britain to just over £9,750 per acre during the third quarter of 2014. This equates to a 12.8% value increase in average prime arable land since the beginning of the year and year-on-year growth of 17.9%.

During the third quarter growth was concentrated in England (+3.8% for 'all land types') with strongest growth recorded for some of the

poorer quality land. This suggests buyers are beginning to recognise its value compared to arable land.

Conversely our research shows that the growth in values for prime and average quality land in England slowed during the third quarter as sentiment became more bearish on the back of weak commodity prices and the knock-on effect on farm incomes and cash flows (see Graph 2).



The average value for prime arable land (Q314) is just over £9,750



→ During the first three quarters of 2014 farmland value growth in Scotland and Wales has been muted with no growth in Scotland and just a 2.4% increase in average 'all types' of land in Wales.

Uncertainty over the implementation of CAP reforms has been a factor in both areas and Scotland had the additional issues of the Independence Referendum and Land Reforms to contend with.

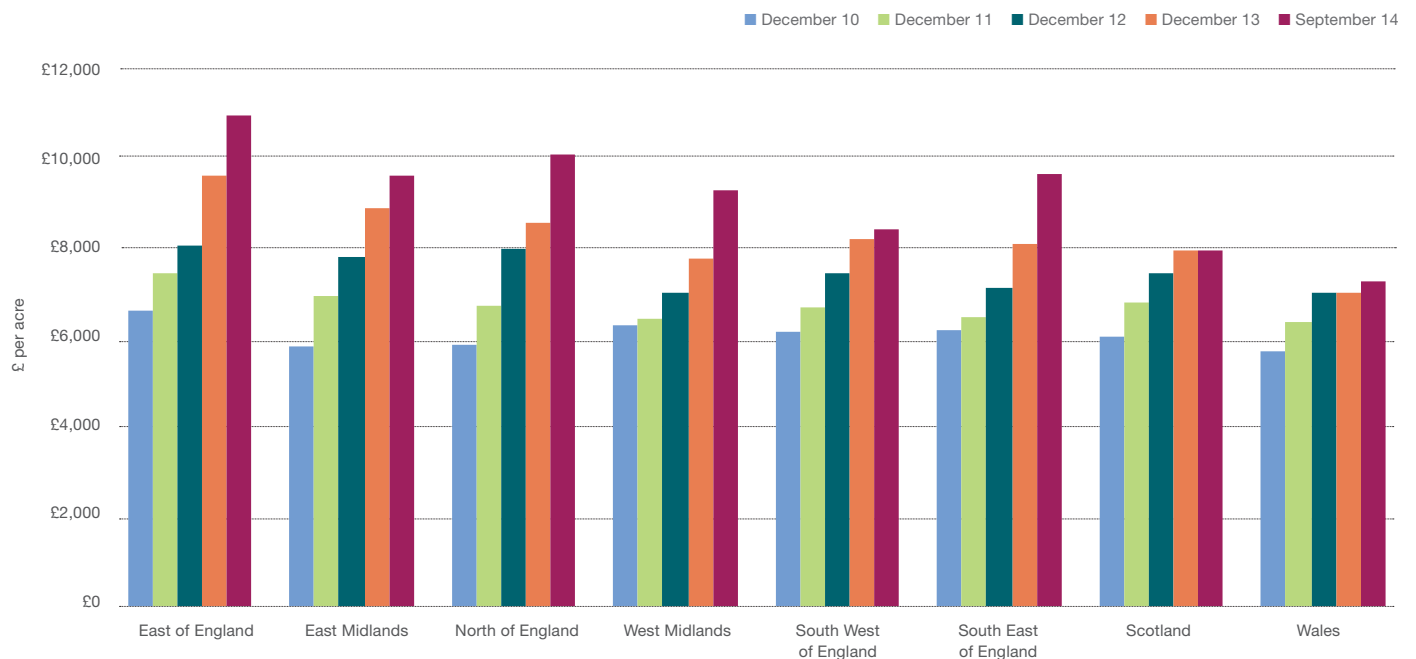
While the Scottish Government's proposed new LBTT (Land Building Transaction Tax) rates, announced by Secretary for Finance Jonathan Swinney (9 October 2014) will have a significant impact on the prime residential property market in Scotland, we suggest the picture for the rural sector is far less dramatic.

Like commercial property transactions, high value farms and estate sales are

not being overly compromised by the new tax. The Scottish rural market offers incredible value for money and the relatively minimal rise of 0.5% will not impact buying decisions unduly.

Average values do conceal regional variations and the farmland market is increasingly diverse in terms of value now being closely linked to location, land quality and type as well as the residential weighting of the farm. →

GRAPH 3 **Regional farmland values** (average prime arable)



Source: Savills Research



➔ **Outlook**

As we move into the last quarter of the year, we are not predicting a change to the recent pattern of farmland supply across Great Britain and we expect the volume of acres marketed in 2014 to be similar to recent years (Table 1).

However, moving into 2015 there are a few factors that might increase supply and affect ongoing growth in values. At a national level we are expecting some growth in average values, but this will be more muted than in 2014, with a continued diversity in the ranges of values achieved. Clearly an understanding of local market conditions will be critical to both buyer and seller to ensure realistic expectations.

The factors include:

■ Pressure on farm incomes and cash flows with the significant weakening commodity prices, a 7% exchange rate hit on subsidies and the prospects of interest rate rises.



Growth in average values expected in 2015, but more muted than 2014

■ Uncertainty around the outcome of the General Election and more especially in Scotland over Land Reforms and any further fall out from the Independence Referendum.

■ Compliance with the new CAP 'Greening' rules may impact on cropping choice and farm business incomes.

■ In Scotland and Wales the shift from historic based payments to the new regional CAP payment scheme is likely to create some distortion in incomes with a wide range between the winners and losers. The losers will principally be intensive livestock producers and especially those in the lower payment areas. In addition buyers of high value entitlements activated in the Less Favoured Area (LFA) will also suffer a capital as well as an income loss.

■ In Scotland, the new 'active farmer' exemptions from 2015 include non-agricultural sporting estates. Unless these estates can prove the necessary level of agricultural activity they may lose this income stream. ■



Farm incomes will be affected by weaker commodity prices

TABLE 1 **Publicly marketed farmland Great Britain**

Year	Acres publicly marketed
2010	156,755
2011	156,202
2012	135,170
2013	144,264
2014 (to end Sept)	120,694

Source: Savills Research



All images: Co-operative Farms Portfolio

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