Market in minutes

Q1 Farmland market

The terrible weather conditions endured by so much of the country earlier this year had a knock-on effect on farmland market activity. In January the number of acres publicly marketed was just 886 acres compared with 2,717 acres in January 2009. Since then supply levels have picked up particularly in the South West and the East and overall supply to the end of March was up by 10% on last year.

Meanwhile, the notoriously bearish market pundit, Marc Faber recently put farmland back into the minds of investors by going on record advising them to buy farmland and gold. It remains to be seen whether his advice is heeded, but nonetheless the early indicators show values have already increased albeit marginally this year.

Farmland values continue to rise although at a rate slightly behind inflation, but this performance is better than that of gold which softened by -1.9% during Q110 and by -4.4% when adjusted for inflation.

However, we anticipate by the end of the year the rate of growth for these assets will have gained momentum with both farmland and gold continuing to perform as investment classes. Indeed, we are already seeing signs of improvement in the wider economy and so far this year there are more non-farmers in the market compared with last year.

Values

Our Farmland Value Survey shows the average value of Grade 3 arable land across Great Britain rose by 0.8% during Q110 to £4,800 per acre. This follows a rise of 6.7% during 2009 and the 21% growth recorded in 2008.

In England, the average value of Grade 3 arable land increased by 1% during the first quarter of 2010 to £5,000 per acre. Our survey records similar increases for prime arable and Grade 3 pasture, which now average over £5,500 per acre and around £4,400 per acre respectively.

Stronger growth of 1.7% was recorded in the same period for average prime dairy land which now stands at £5,365 per acre. Poor pasture increased by 2.4% to £3,450 per acre reflecting tentative signs of increased activity in the amenity farm market.

However, these averages mask some significant ranges in value depending upon location and land quality. In the East for example the gap in values continues to widen with the best achieving around £8,000 per acre and the worst £4,500 acre.

The signs of a tentative increase in non-farmer activity is also marked by the stronger growth recorded in farmland values in the western regions of England compared to the eastern regions. Average values for all types of farmland increased by 2.5% in the South West of England, despite increased supply, compared with 0.2% in both the East Midlands and the East of England.

In Scotland, as in previous years the value of farmland remained unchanged during the first quarter of 2010 mainly due to the lack of transactions to provide hard evidence of price movements. Historically the farmland market starts trading later north of the border.

Supply

Our latest research shows that the volume of farmland marketed across Great Britain during the first quarter of 2010 has showed some small signs of recovery (+10%) from the very low levels recorded in the same period of 2009. However, supply is still tight and remains well below the acreages marketed at the beginning of the last decade.

In England just over 15,500 acres were publicly marketed during the first quarter of 2010, around two thousand more acres than in the first quarter of 2009, an increase of 14%.

In general terms, activity was strongest in the eastern counties, where over 43% of the acreage publicly marketed in England as a whole was located.

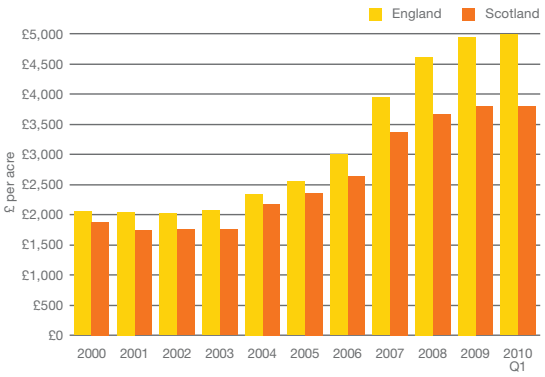
In contrast, supply fell -33% in the North of England and -4% in the West Midlands. The exception in the West was the South West of England where activity increased by 19% to just under 4,200 acres.

In Scotland just under 5,000 acres were publicly marketed in the first quarter of 2010 compared with 4,200 in the same period of 2009, an increase of 16%. The market is still highly constrained and it is difficult to see that this will change in the short term.

The figures discussed do not account for any privately marketed farms, but anecdotal evidence suggests there is activity for large commercial farms and estates.

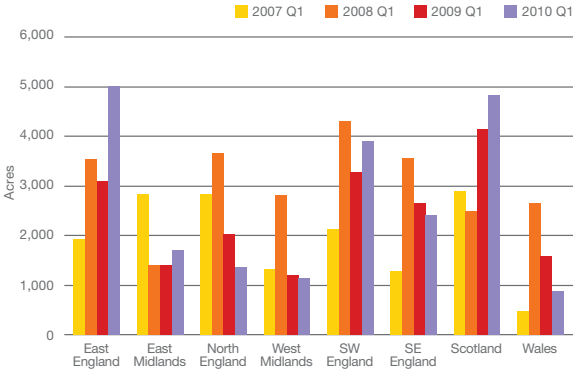
"Supply is still tight and remains well below the acreages marketed at the beginning of the last decade."

Graph 1
Grade 3 arable values



Source: Savills Research

Graph 2
Increased activity but market remains constrained



Source: Savills Research

savills

Demand

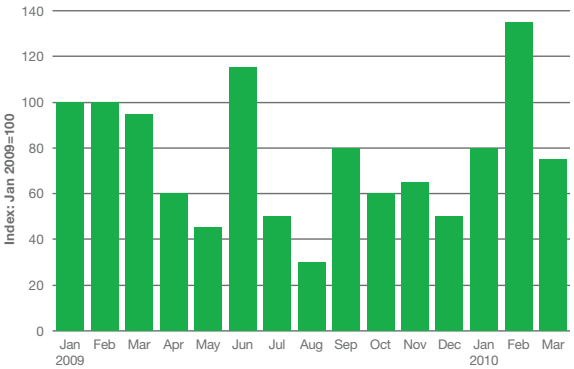
Demand remains strong, and as noted in our Agricultural Land Market Survey 2010, the market is supported by funds of around £7.5bn.

New applicants continue to register at a level similar to the start of last year as illustrated in Graph 3. In addition those with cash, as opposed to loans or a potential sale, represent over 60% of all applicants.

The majority of applicants are looking for farms or estates of up to 500 acres but over a tenth of all applicants are interested in larger properties.

"The majority of applicants are looking for farms or estates of up to 500 acres."

Graph 3
New applicant activity undiminished



Source: Savills Research

Outlook

We still expect our forecasts as detailed in our Agricultural Land Market Survey 2010 to apply. These are derived from our new Farmland Value Model which has been developed using trend data going back 35 years.

Our model predicts that average Grade 3 arable values could increase across Great Britain by around 5% to 6% during 2010 with further growth of similar amounts during the coming years.

The forthcoming review of the CAP in 2012 may put some pressure on farm incomes, but we believe that little of this pressure will feed into farmland values.

We expect supply to remain constrained with debt being the major influence of any increased supply. However, with no signs of an immediate hike in interest rates this factor is unlikely to be significant.

There will be regional differences to our base line forecast as supply and demand dynamics are affected by local factors such as farm type and size. In addition, the strength of demand for commercial units relative to amenity and residential properties will also cause variations in the rate of growth. ■

"The review of CAP in 2012 may put some pressure on farm incomes, but little of this will feed into farmland values."

Research contact:

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

For information on the land market in your region please contact one of our farm agency team:

National
Crispin Holborow
020 7409 8881
cholborow@savills.com

London
Alex Lawson
020 7409 8882
alawson@savills.com

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

North
Andrew Black
01904 617 800
ablack@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

savills