Market in minutes

Q2 Farmland market

Against a backdrop of increasing economic uncertainty UK farmland has retained its status as a safe investment, according to Savills Farmland Value Survey. During the second quarter of this year the average value of Grade 3 arable land across England has increased by 5% to £5225 per acre, which compares with £2365 per acre in June 2005.

The austerity measures presented in the Coalition Government's emergency budget will affect all types of business during the next few years. However, a carefully crafted budget allowed the bad news to verge on the palatable, with the bulk of savings being made through a squeeze on benefits and the public sector.

Capital Gains Tax (CGT) was the major concern for those with an interest in the property sector. The Chancellor clearly appreciated that a large increase in the rate of tax could potentially reduce activity in the UK property markets and lead to a fall in revenue. An increase to 28%, for higher rate taxpayers is perhaps a fair compromise, but the lack of any taper or indexation will be a disappointment to long-term holders of assets. The immediate introduction of this increase vindicated the tax planning activities that had taken place during the month running up to the emergency budget.

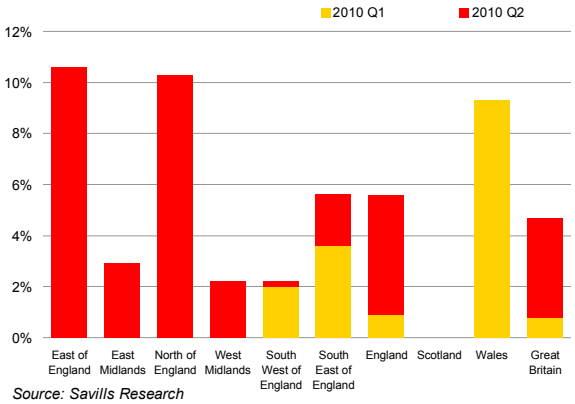
Values

Our Farmland Value Survey shows that the average value of Grade 3 arable land across Great Britain rose by 3.9% during the second quarter of 2010 to £4,950 per acre. This follows a rise of 0.8% during the first quarter of 2010 and the 6.7% growth recorded in 2009.

In England, the average value of Grade 3 arable land increased almost 5% during the second quarter of 2010 to £5,225 per acre. The majority of the increases in the second quarter of 2010 were concentrated in the arable sector, as reflected in the regional growth illustrated in Graph 1. Our survey records similar increases for prime arable (5.8%) and poor arable land (3.3%), which now average over £5,850 per acre and around £4,000 per acre respectively. Five years ago the averages for these land types were £2,569 per acre and £1,641 per acre respectively.

In contrast, values in Scotland have remained under pressure. With little sales evidence and more land, especially grassland farms, coming to the market, our Farmland Value Survey has recorded zero growth across all land types since the third quarter of 2009. With almost three quarters of the farms publicly marketed in the first half of 2010 being stock farms, and current demand strongest for arable farms, the value of grassland may come under pressure.

Graph 1
Grade 3 arable values – regional variation



Source: Savills Research

The average value of Grade 3 arable land across Great Britain rose by 3.9% during the second quarter of 2010 to £4,950 per acre

savills

Supply 2010

Our latest research shows that the volume of farmland marketed across Great Britain during the first half of 2010 was very similar (+1%) to that recorded in the same period of 2009 at around 85,000 acres. However, this volume represents just half of the area publicly marketed at the end of the 1990s and is still the fourth lowest amount recorded for the first half of the year during the past ten.

In England, just less than 60,000 acres were publicly marketed during the first half of 2010, around 5,000 fewer acres than in the first half of 2009, which is a decrease of 8%.

Activity across England was down in all regions with the exception of the South West and the North of England where supply increased 19% and 11% respectively (see Graph 2).

In contrast, supply in Scotland increased by 43% during the first half of 2010 to 22,500 acres, compared with just 15,000 in the same period of 2009. Almost three quarters of this area comprised livestock farms.

The above figures do not take into account privately marketed farms, but anecdotal evidence suggests there has been significant activity 'off market' for both large commercial farms and estates during the first half of 2010.

Buyers and sellers

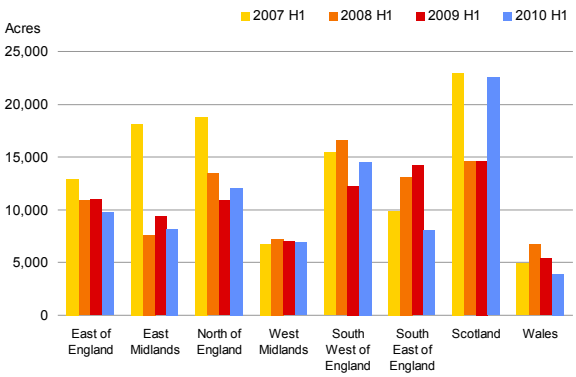
Demand remains strong with a 60% increase in new buyers registering on our database in the first half of 2010, compared with the same period of 2009. 45% of all our applicants have between £2 million and £5 million to spend on farms and estates.

Our analysis of farm transactions in the first half of 2010, where Savills acted for the seller or buyer, indicates that farmer buyers remain predominant, purchasing 62% of all farms – a similar proportion to 2009 (see Graph 3). The key reason farmers are buying is to expand their farm businesses.

Although anecdotal evidence points to a greater degree of interest from non-farmers this year compared to last year, our research shows this is not yet transferring into deals. In the first half of 2010 non-farmers represented 33% of all buyers compared with 36% in 2009.

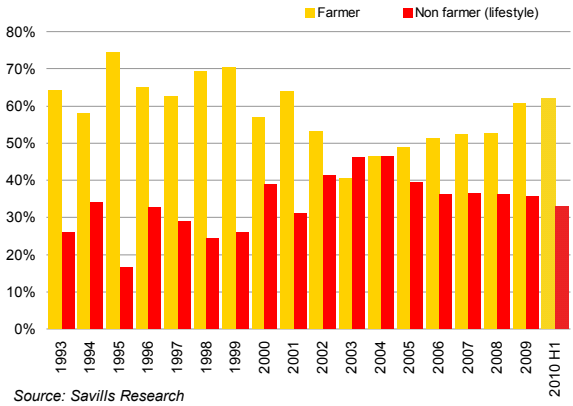
Debt has little responsibility for bringing acres to the market and is cited as the reason to sell in only 5% of deals; even less than the 10% recorded in 2009.

Graph 2
Supply at low levels



Source: Savills Research

Graph 3
Farmers remain predominant buyers



Source: Savills Research

savills

Outlook

Against a backdrop of increasing economic uncertainty, UK farmland has retained its status as a safe investment.

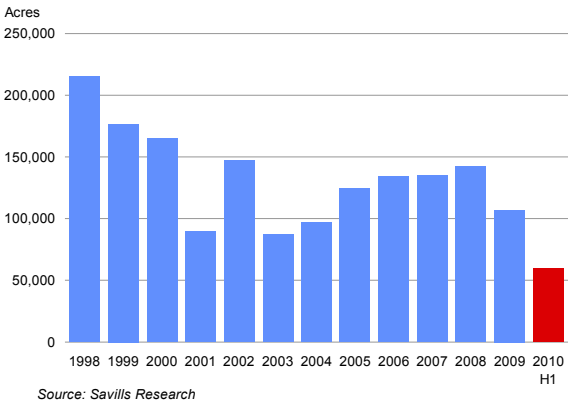
In line with our baseline forecasts published at the beginning of the year, average values for all types of farmland increased by 2.9% across Great Britain in the second quarter of the year, to give a total increase in the first half of 2010 of 4.5%.

We anticipate there will be a significant variation in the rates of growth between regions by the end of the year; with the strongest growth forecast for the East and North of England, where good quality arable units will dominate the market. In addition, location and quality will become increasingly important factors forcing a wider gap between the highest and lowest prices achieved.

A significant influence on the English market is likely to be a squeeze on supply. We expect less than 100,000 acres to be publicly marketed this year. Graph 4 illustrates that these levels were last recorded in 2001 when Foot and Mouth Disease all but closed the countryside, and in 2003 and 2004 when there was a great degree of uncertainty over how the Single Farm Payment Scheme would be introduced.

In Scotland, whilst we anticipate that average farmland values will remain relatively stable throughout the remainder of the year, we expect good commercial farms to sell particularly well. ■

Graph 4
Will supply reach 100,000 acres in England?



Source: Savills Research

We anticipate a significant variation in the rates of growth between regions; with the strongest growth for the East and North of England

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 617 831
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