Market in minutes

Q3 Farmland market

Activity in terms of supply remains very tight in the farmland market. This has helped support values, which continue to improve and are now regaining the ground lost in the second half of last year.

Average values across Great Britain increased by 3% during the third quarter of 2009 giving a total increase of 3.5% since December 2008.

The volume of farmland publicly marketed remains very tight recording a fall of -21% during the first nine months of this year compared with the same period of 2008.

Values

Our Farmland Value Survey shows that average values across Great Britain increased by 3% during the third quarter of 2009 giving a total increase of 3.5% since December 2008.

Our research shows that prime arable land recorded the highest growth (5%) in the third quarter to average just under £5,400 per acre. This reflects the fact that those in the market for land this year are targetting commercial farms rather than amenity or lifestyle properties.

In England, average growth of 3.3% was recorded across all regions with the strongest growth, a significant 6.4%, recorded in the South East of England, where average values exceeded £5,100 per acre.

In Scotland, for the third successive quarter, average farmland values for all sectors except prime arable land remained unchanged. Average prime arable land values increased by 4.4% during the third quarter of 2009 to just over £5,100 per acre.

Graph 1 illustrates the trend in average grade 3 arable land values, although these average values mask a wide range of values. Top-end sales often are achieving in excess of £6,500 per acre.

Supply

Our latest research shows that the volume of farmland publicly marketed remains very tight. Across Great Britain 131,500 acres were publicly marketed during the first nine months of 2009 compared with 167,000 acres for the same period of 2008, a fall of -21%. Graph 3 shows how this market has contracted across all regions except in the South East of England.

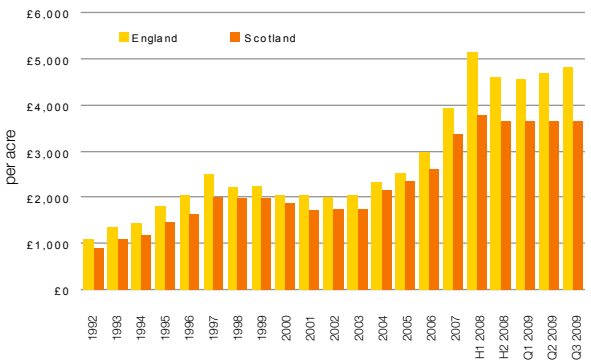
In England supply also fell by a similar amount (-20%) during the same period with 99,700 acres publicly marketed, compared with 124,000 in 2008. Market activity in Scotland fell by -25% with 24,000 acres marketed in the first nine months of 2009, compared with 32,000 in 2008.

In England the greatest falls in supply were recorded in the East of England (-39%) and the South West of England (-27%). In the East of England supply fell to just 16,000 acres and to just under 19,000 acres in the South West.

The South East was the only region of England where supply increased; up by 3% to just over 17,800 acres. The volume of land marketed in the South East represented over 18% of the total supply in England.

The data analysed however does not account for privately marketed farms and estates. Our research suggests that this market remains strong.

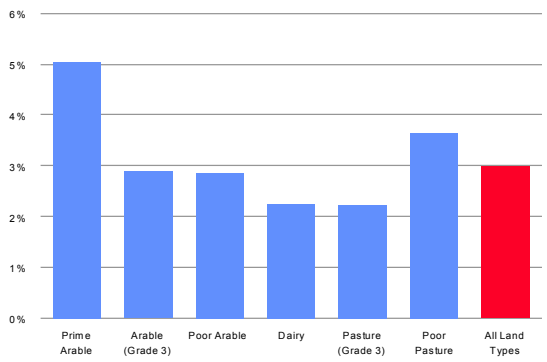
Graph 1.
Average grade 3 arable land values



Source: Savills Research

Our research shows that prime arable land recorded the highest growth (5%) in the third quarter to average just under £5,400 per acre

Graph 2.
Change in values during Q3 2009



Source: Savills Research

Graph 3.
Change in supply – 1st 3 Qs 2009 to 1st 3 Qs 2008

Source: Savills Research

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Outlook

Following a small decline in farmland values over the winter of 2008/09 values have now resumed an upward trend, albeit at a significantly slower rate than recorded during 2007 and early 2008.

Farmland, along with gold, continues to be viewed as a good long-term investment and a hedge against inflation. As mentioned above, the strongest demand this year is for good commercial farms, which are currently performing well on both fronts – income generation and capital appreciation.

Graph 4 shows that the correlation between farmland, gold and oil remains strong – the world's principal defensive hedges. Although oil prices have firmed with the early signs of an economic recovery, they are still sensitive to exchange rate changes.

Farmland values, like the price of gold, stabilised around their peak and neither have recorded the significant falls of residential and commercial property nor equities over the past two years.

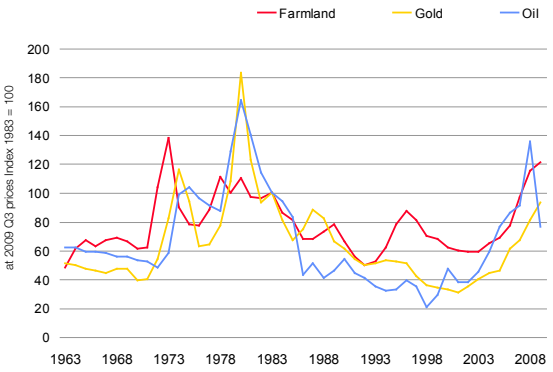
We expect the fundamentals of food and fuel production and the finite nature of land to continue supporting values. If this, as we believe, is combined with the current low levels of turnover, then values are likely to continue rising at a steady rate.

Our forecasts are underpinned by our new farmland value model, which has been developed from an in depth analysis of the factors that impact on values. We expect values to be stable during the last quarter of this year giving annual growth in 2009 of around 4% followed by modest annual growth of between 3% and 5% is likely during the next few years.

Temporary short-term volatility in cereal prices is unlikely to change our view, but a sustained period of price changes could affect values either way. A significant increase in the supply of land coming to the market, although we believe this unlikely, would put pressure on values. Likewise, a significant reduction on existing supply levels could push values up by more than our 3-5% current forecasts.

Further unexpected recessionary pressure on the general economy and the residential markets might also temper growth. ■

Graph 4.
Values of farmland and gold remain strong



Source: Savills Research

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