Market in minutes

Q3 Farmland market

Introduction

The market for farmland across Great Britain is diverse with the results of our latest surveys showing an east-west divide. So far this year good quality, predominantly arable commercial farms have been most in demand.

Farmland values continued to rise during the third quarter of this year with, according to the results of our Farmland Value Survey, the strongest growth concentrated down the eastern side of England, where farmers and investors have competed for good quality units.

Since the Cereals event in June, commodity and fertiliser prices have significantly increased. The Farmers Weekly/ Savills Virtual Arable Farm Model shows that the recent hike in wheat prices, despite a nitrogen fertiliser price increase to £250 per tonne, has the potential to increase the profit (before Single Farm Payment, rent and finance) on a 2,000 acre combinable cropping farm by over 125% equating to an additional £175,000 of cash.

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Taking into account projected capital growth for good arable land of well in excess of 10% and a potential net income return of at least 3.5%, providing a total return of around 15%, farmland is a very attractive investment.

Values

Our Farmland Value Survey shows that the average value of Grade 3 arable land across Great Britain rose by 3.5% during the third quarter of 2010 to £5,180 per acre. This puts the cumulative growth for the first three quarters of 2010 at 9.7%, compared with the 6.7% growth recorded for the whole of last year. Average values are now higher than at their previous peak of June 2008 (£4,895 per acre).

In England, the average value of Grade 3 arable land increased by 3.6% during the third quarter of 2010 to £5,462 per acre giving a total growth of 10.4% during the first three quarters of 2010.

Our research shows there is a clear pattern of stronger growth for farmland down the eastern side of England than anywhere else, reflecting the strength of the commercial arable farm market (see Graph 1).

The North of England, the East Midlands and the East of England all recorded average growth for all land types of around 13% during the first three quarters of this year. Average growth for all land types was more muted down the western side and in the southern regions of England. While the West Midlands, the South West and South East of England recorded growth of 4.5%, 6.2% and 3.4% respectively.

In contrast, average values in Scotland remained under pressure with growth only recorded for arable land. Our Farmland Value Survey recorded 5.8% growth for the average value of Grade 3 arable land across Scotland during the first three quarters of 2010 with around half of this figure recorded in the third quarter. For the quarter, prime arable land on the eastern side of the country showed the best performance at 4.1% where values were supported by a good potato and wheat harvest.

For consistency across Great Britain we continue to report on average values, but it is worth noting that at the higher end of the range in values arable land has been achieving at least £8,500 per acre in some areas.

Supply 2010

The volume of farmland marketed across Great Britain during the first three quarters of 2010 increased by 9% to 143,000 acres, compared with the same period in 2009. However, the increase was concentrated in Scotland (+26%) and Wales (+73%) whilst, in England supply fell by -1% to just below 100,000 acres. This fall was not across the board as illustrated in Graph 2, it was the eastern regions of the East Midlands, the East of England and the South East where supply reduced.

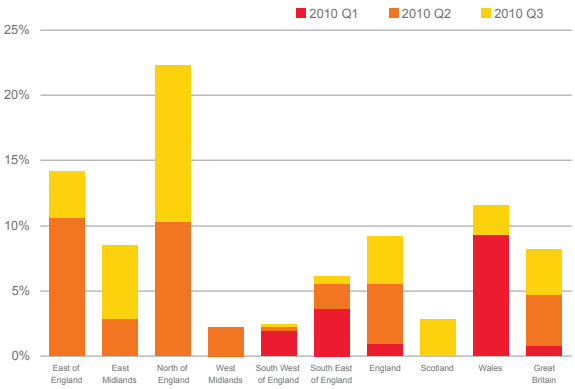
In spite of this reduction, activity across England during 2010 has been concentrated across the North and down the eastern regions, accounting for 55% of all English supply, which is below 2009 levels.

In contrast supply in Scotland increased 26% during the first three quarters of 2010 to almost 32,000 acres, compared with just 25,000 in the same period of 2010.

The above figures take no account of any privately marketed farms, but anecdotal evidence suggests there has been significant activity 'off market' for both large commercial farms and estates during the first three quarters of 2010.

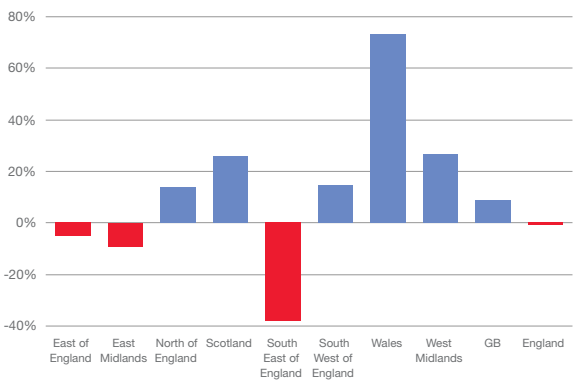
In England, supply fell by -1% to just below 100,000 acres, although this fall was not across the board.

Graph 1
Grade 3 arable values – east-west divide



Source: Savills Research

Graph 2
Regional change in supply



Source: Savills Research

Demand

Demand remains strong with a 56% increase in new buyers registering on our database during the first three quarters of 2010 compared with the same period of 2009. A flurry of activity was recorded in July when a quarter of this year's new applicants registered suggesting a renewed interest in farmland as a safe investment after the Coalition Government's austerity budget in June.

Our research shows that the proportion of buyers with funds between £2 million and £10 million has increased this year compared with the previous three years. Three quarters of all our applicants have funds in this range to spend on farms and estates.

Outlook

The baseline forecasts generated by our Farmland Value Model at the beginning of the year have proved to be a good indication of the market. Average values for all types of farmland across Great Britain increased 8% during the first three quarters of this year compared with our forecast for the year of around 7%.

2011 will be an interesting year. Whilst demand is not expected to falter it will remain price sensitive especially where future income generating opportunities are limited. Our main baseline forecast for the short to medium term remains unchanged at around 6% per annum, although, we expect growth in values to be diverse and largely related to quality.

We believe a fall in values is highly unlikely given the fundamentals of growing populations, food security, increased wealth, renewable energy and land being a finite resource.

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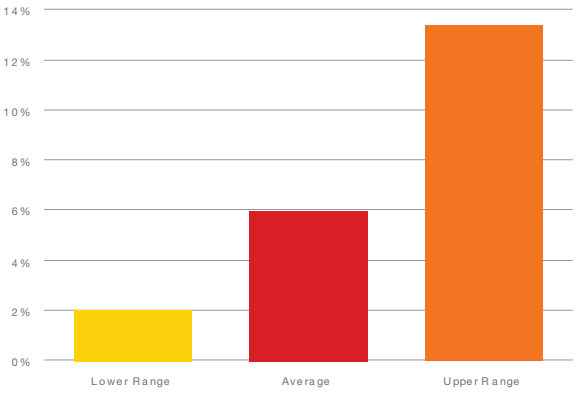
Our 2011 forecasts are set out below and illustrated in Graph 3:

Lower range: Growth is likely to be weak and to be well below 5%. This scenario could play out where the market is dominated by grassland farms, which have no real residential or amenity appeal or where small blocks of land are not in prime locations. The former may reflect a reasonable proportion of the market in Scotland.

Average: Our baseline forecast which we believe to be a realistic base forecast for average values across Great Britain, stands at 6%.

Upper range: Strong demand for good quality commercial farms, predominantly arable, may give value growth well in excess of 10%. This likelihood strengthens if the current uplift in commodity prices remains robust. We expect the value of top quality estates to also show growth in this range. ■

Graph 3
2011 forecasts show more divergence



Source: Savills Research

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