Market in minutes

Q2 Farmland market

Introduction

Grade 3 arable land values in England continued their upward trend rising 3.3% between March and June, following growth of 2.7% during the first quarter of this year. As Savills predicted however, the market has become increasingly polarised, with a strengthening correlation between values and land type, quality and location.

In the eastern counties, arable land is attracting significant interest which is reflected in the strongest growth in arable values this year, whereas in the South West of England the strongest growth was in grassland values.

Demand has remained strong through the first half of the year, with signs of renewed interest from non-farming lifestyle buyers.

Following a slow start to the year, farmland supply increased during the second quarter, but is still constrained in the historical context. →

"The market has become increasingly polarised with a strengthening correlation between values and land type, quality and location"

Values

Our Farmland Value Survey shows values continued increasing during the second quarter of 2011 (see Graph 1).

In England, the average value of grade 3 arable land increased by 3.3% to £5,900 per acre during the second quarter of 2011 giving a total growth of 6% in the first half of 2011.

Across the regions, the North of England recorded the largest gains in value for grade 3 arable land of 7.1%, £5,230 an acre. However, as Graph 1 illustrates, there was no growth recorded during the first quarter of the year.

The East Midlands and the eastern counties also reported significant rises in average values during the second quarter of 4.8% and 3.8% respectively. In contrast, second quarter growth across the West Midlands (0%), the South West (0.9%) and South East of England (1.4%) slowed when compared to the first quarter of the year.

There is a widening gap between the lowest and highest prices paid for land (see Graph 2) as the markets become increasingly polarised and values achieved are increasingly dependent upon location, quality and land type. Grassland values in the East Midlands came under pressure during the second quarter of the year reflecting the mixed activity in the market. In contrast, in the South West, grassland values rose faster than arable values during the same period.

Grade 3 arable land values in Wales rose by 2.1% to average £4,430 per acre during the second quarter of 2011 compared with no change in values during the same period in 2010. However, in the first half of 2011 land values in Wales recorded a 3.6% rise in grade 3 arable land values, compared with 9.3% growth during the first half of last year.

In Scotland, average values have remained unchanged since September 2010 at just over £4,000 per acre. This is however, largely due to the lack of land marketed during the first five months of 2011. The strengthening of supply and an increase in buyers reported since May, could have an effect on values in Scotland during the second half of the year.

The value increases highlighted above led to the average value of grade 3 arable land across Great Britain rising by 2.8% to exceed £5,500 per acre. This follows a rise of 2.3% during the first quarter of 2011 and an 11% increase in 2010.

Supply

Supply in England rose by 19% in the first half of 2011 compared with the same period of 2010, and accounted for 73% of the farmland marketed in Great Britain.

The East Midlands recorded the largest increase (59%) in supply compared with the same period of last year. There was also a significant rise in the South East of England of 36%.

Illustrated in Graph 3, market activity in both Scotland and Wales fell by 3% and 4% respectively during the first half of this year compared with last. It took until the second quarter of the year for the market to pick up in Scotland when over 90% of the 22,133 acres marketed was launched.

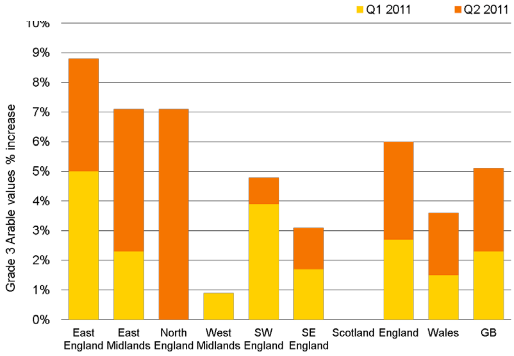
Across Great Britain therefore, the volume of publicly marketed farmland increased by 12% to 94,400 acres compared with 84,500 acres during the same period in 2010.

Interestingly, more than 80% of this farmland was marketed in the second quarter of 2011. During May alone, 32,930 acres of farmland were publicly marketed and according to our research, this is the most land advertised publicly in one month since September 2008.

Although significant (see Graph 3) these volumes are below the levels recorded in 2007, when nearly 110,000 acres were publicly marketed across Great Britain during the same period. Similarly, it is also only just over half of what was marketed during the same period in 2000.

GRAPH 1

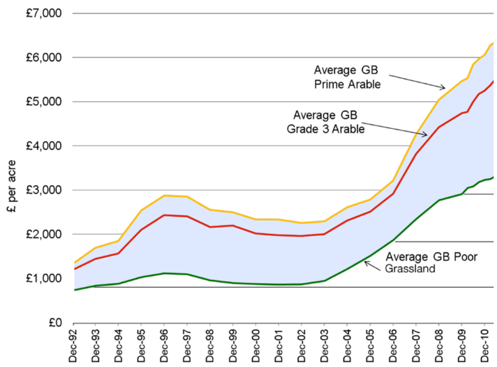
Regional variations in farmland value growth



Graph source: Savills Research

GRAPH 2

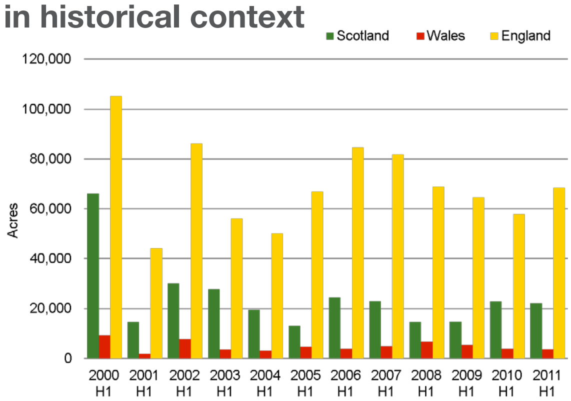
Price gap widens for best farmland



Graph source: Savills Research

GRAPH 3

Some increase in supply, but small in historical context



Graph source: Savills Research

"Supply in England rose by 19% in the first half of 2011 compared to the same period of last year."

Buyers and Sellers

Demand remains strong. About 15% of all farmland buyers registered with Savills looking to buy at least 100 acres were new registrations this year. Which is on a par with the same period of last year. However, there is evidence to suggest buyers are becoming more cautious and price sensitive with the impression that much of the good news is in the current price of land.

46% of Savills applicants have between £2 million and £5 million to spend on farms and estates, which is a small increase on the same period of last year. Our research suggests there has been an increase in applicants looking to buy in Scotland.

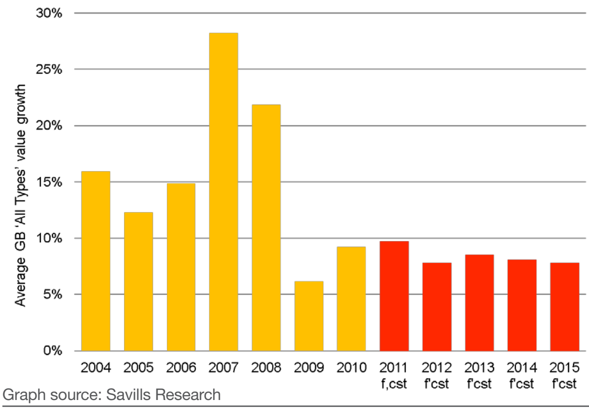
Our analysis of farm transactions in the first half of 2011, where Savills acted for the seller or the buyer, points to a renewed interest from new non-farming lifestyle buyers. They represented about one-third of all buyers compared to less than a quarter in 2010.

Farmers are still the dominant buyer with farm expansion the principal reason for purchase. This year to date there has been little interest in UK farmland from overseas buyers. In contrast, overseas owners of British farmland became net sellers.

Analysis of the reasons for sale shows debt is becoming a greater driver for sales. It is too early to tell if this will bring more land to the market and anecdotal evidence from our agents suggests the volume of land brought to market during the rest of the year will be tight. ■

GRAPH 4

Average growth more muted going forward



Graph source: Savills Research

OUTLOOK

■ The baseline forecasts generated by our Farmland Value Model at the beginning of the year are proving to be on track. The average value of grade 3 arable land across Great Britain has risen by a total of 5.2% to £5,530 per acre since the beginning of the year.

■ Our model predicted an average increase of 9.7% across Great Britain during 2011 and continued growth, albeit more muted (see Graph 4), over the next few years backed by the competing global fundamentals of land use for food, renewable energy and infrastructure.

■ Our research shows that we have already recorded more than half the growth we forecast for 2011 and we expect average growth to slow in the remaining six months of this year. In addition, as we also noted at the beginning of the year the farmland market is proving to be more polarised and we expect this will continue into the second half of this year and into 2012.

■ We are in uncertain times and, although we expect supply to remain reasonably tight and the fundamentals of growing population, food security, increased wealth, renewable energy and land being a finite resource to underpin the market, there are potential pressures, which may add impact on the future rate of growth for farmland value in some sectors of the market. These include the continued difficult economic climate and austerity measures, the volatility of farm input and output prices which directly impact on profits, and the current reforms of the CAP.

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