

Agricultural Land Market Survey 2009

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Introduction

Welcome to the 28th edition of our Agricultural Land Market Survey. In this issue we track the changes to the farmland market during 2008 and also look at them within an historical context. We then examine the factors that are likely to determine the direction in which farmland values are likely to head this year and the outlook for the future.

The period of exceptional growth in values appears to have come to an end. Although average farmland values across Great Britain increased last year, the growth was confined to the first half. It is worth noting that values continued to vary considerably across the market, the highlights of which are included in this report.

2008 was a year of uncertainty, the global economy fell into recession and confidence waned. For agriculture there were significant falls in commodity prices and the cost of key inputs dramatically increased. Meanwhile the UK has at 1.5% its lowest interest rate on record in the Bank of England's history.

Although the credit crunch has significantly reduced the number of non-farmer buyers of farmland, the market is still expected to remain fairly resilient during the current economic downturn. It is worth noting that farmland can be seen as a hedge investment, similar to gold. ■

Farmland values

Our Farmland Value Survey shows that the average value for all types of farmland increased by 21% across Great Britain during 2008 to £4,200 per acre. This increase brings the aggregate increase over the past five years to a very significant 135%. However, this bull run appears to have come to an end with average values falling by 6.4% during the second half of 2008.

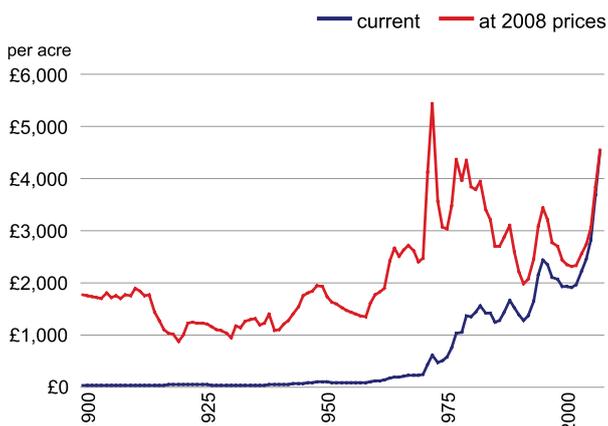
This trend was the same across England, Scotland and Wales and for all farm types. The adjoining map illustrates the average value of 'all types' of farmland across Great Britain and the respective increases over the past five years. These averages hide a wide range of values, which are clearly illustrated in the regional charts around the map.

Values fell furthest, by just over 10%, in the predominantly arable eastern regions of England where falls in wheat price had the greatest impact on buyer confidence. In contrast, values decreased by less than 5% to the West where pasture dominates. In the West Midlands prime dairy land values fell by less than 1% in the final quarter of 2008, whereas the region's prime arable acres dropped almost 4% in the same period. For Scotland the annual increase in average land values was 5.6% with 8.3% growth in the first half of the year.

Our research shows that quality units are performing well achieving in excess of the averages recorded above. Prime arable farms continued to achieve in excess of £7,000 per acre and £10,000 per acre was often achieved for top quality commercial dairy units in the prime dairying regions. ■

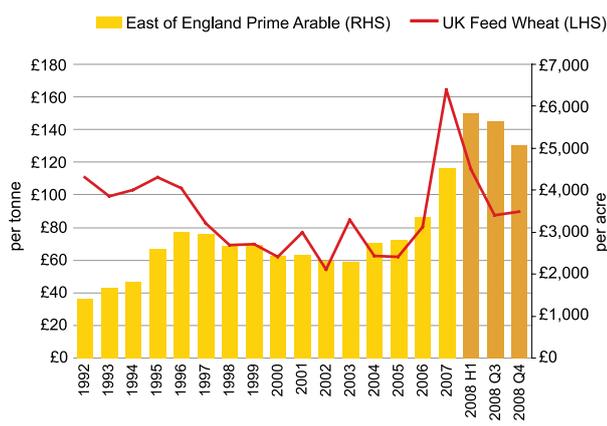
“Prime arable farms continued to achieve in excess of £7,000 per acre.”

Graph 1
Rapid value growth in recent years



Source: Savills Research

Graph 2
Values falter in second half of 2008

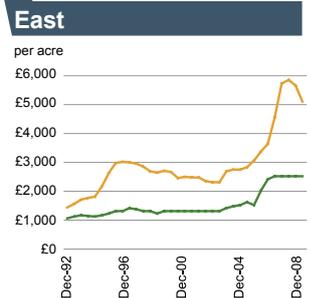
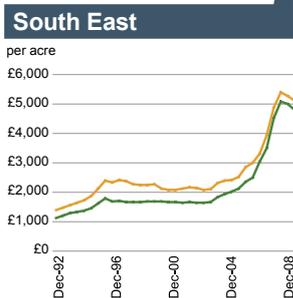
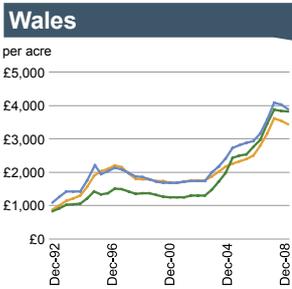
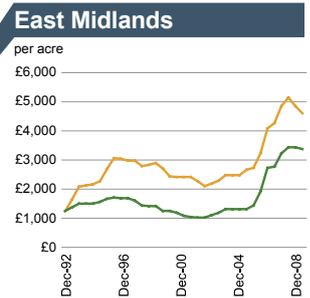
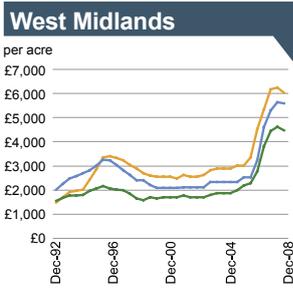
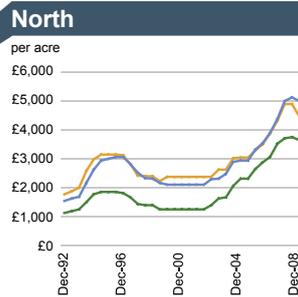
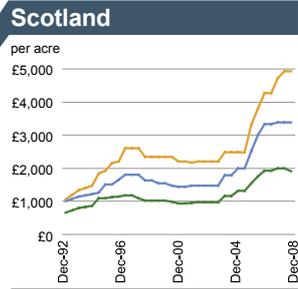
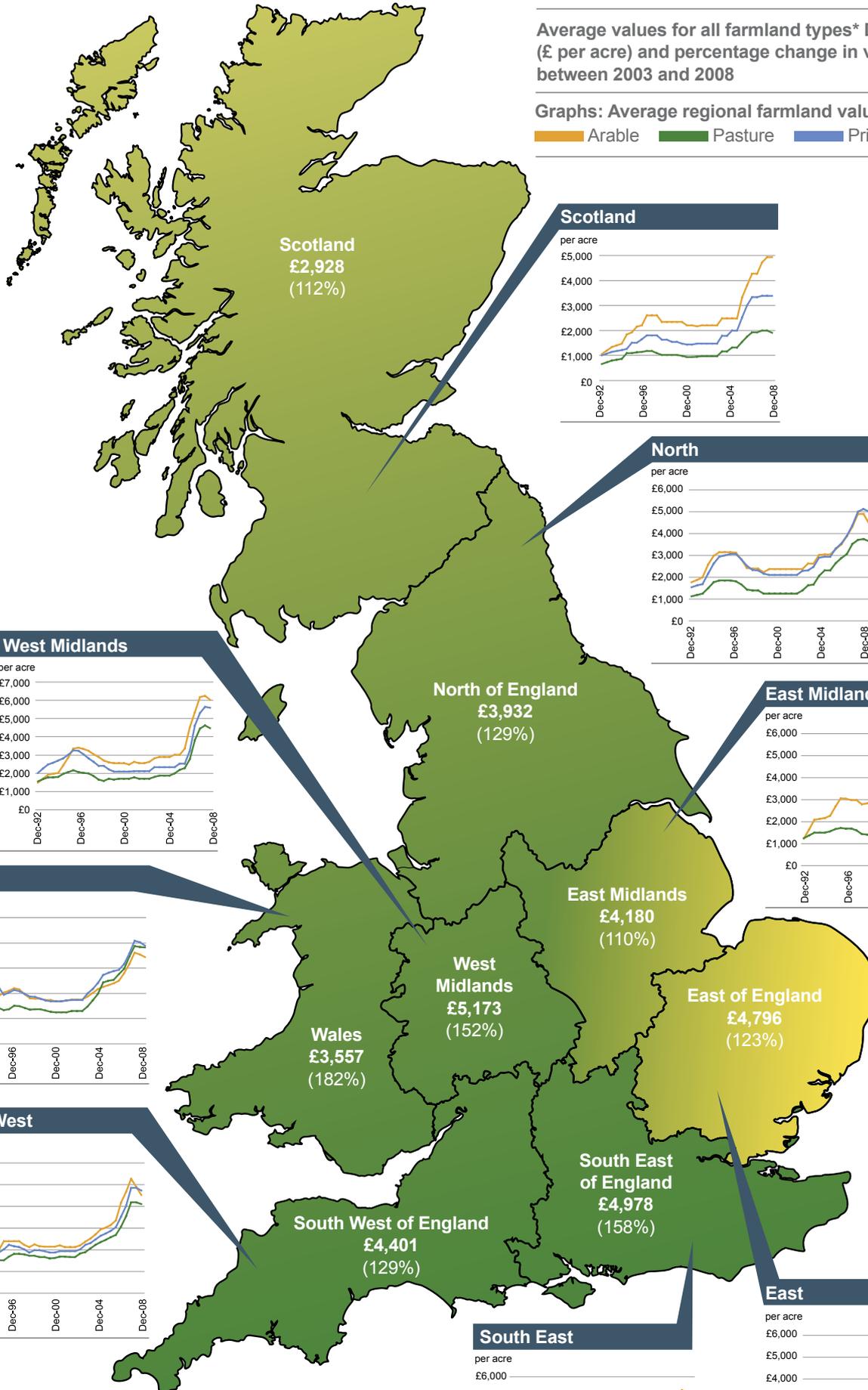


Source: Savills Research, HGCA

Average values for all farmland types* Dec 2008
 (£ per acre) and percentage change in value
 between 2003 and 2008

Graphs: Average regional farmland values

Arable Pasture Prime Dairy



* All lowland types & grades, VP ex houses & quotas

Drivers of value

Supply

Activity in the farmland market across Great Britain has been relatively stable during the past three years with an average of around 186,000 acres publicly marketed in each year. In addition, a significant volume of land continues to be traded privately. Closer analysis however shows that supply increased slightly in England whilst market activity in Scotland decreased by 6% last year.

This recent period of relative stability follows the uncertain years of, first foot and mouth disease (FMD) and secondly the introduction of the Single Farm Payment. Activity, however has yet to recover to pre FMD levels in all but the East of England. In many regions supply has fallen by over a quarter and in Scotland activity is less than half what it was pre FMD.

What motivates farm owners to sell is key to understanding how the market will behave in the future. We expect the recent stability in supply to continue and see no reason for any significant increase in the volume of available farmland.

The principal sellers of farmland are farmers, non-farming landowners (including private trusts) and the corporate/institutional landowners. Conservation bodies such as the RSPB rarely sell but are active buyers when land with significant environmental value becomes available. Analysis of transactions where Savills acted for either the seller or buyer shows that:

- 48% of sellers in 2008 were farmers which is significantly lower than the 57% recorded in 2007
- 43% of sellers in 2008 were non-farming landowners, up from the 30% recorded in 2007
- The remaining 9% were corporate or institutional landowners – similar to previous years.

There clearly has been a shift in the profile of farm sellers from farmers to non-farmers (those where income generation from farming is not the primary motive for

owning the farm). Low interest rates and the increased profitability of farming in 2008 despite the dramatic increase of input costs helped to reduce the number of farmers bringing their farms or land to the market. Our research shows that just 7% of all sales were motivated by debt – the second lowest figure recorded since our data began in 1987.

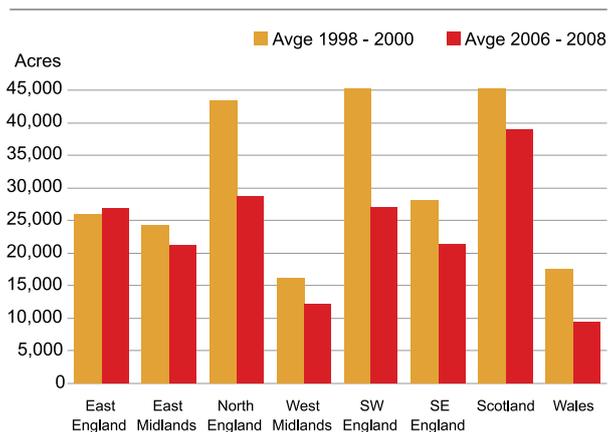
We don't expect debt, as a reason to sell, to be a significant factor in 2009, interest rates are likely to stay at historically low levels and although profitability may dip in 2009 it is likely to remain above 2006 levels. Our forecasts for commodity prices are relatively bullish and milk prices are likely to remain high, although falling world dairy prices may put some pressure on the domestic market. Input price pressures are easing slightly and the weak pound helps UK exports and CAP subsidies. These factors will suppress the number of farms coming to the market and hence we expect supply in 2009 to remain similar to the past few years.

Demand

Demand is key to any market and the current economic gloom has no doubt weakened the very strong demand for farms, which has rapidly driven values up over the past five years. Our research shows that during 2008 there was a notable change in the profile of buyers, with a significant reduction in new non-farming buyers. In 2008 the proportion of these buyers who were purchasing farmland for the first time fell to 23% from 33% in 2007. This highlights the pressures that job losses and the 'credit crunch' are having on aspirational landowners. We expect these buyers to remain scarce this year.

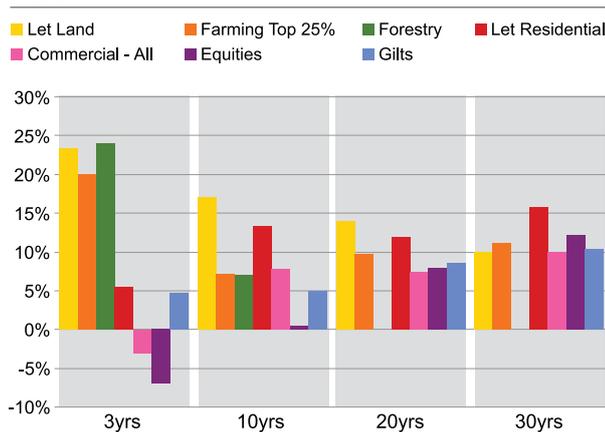
However, our applicant list still remains robust and farmers continue to buy half of the farms sold. Expansion of existing farm enterprises to secure economies of scale is the predominant motivating factor. Reasonable levels of profitability in 2009 with rising commodity prices and some pressure off input costs will support this trend. >

Graph 3
Farmland market shrinks



Source: Savills Research

Graph 4
Top performance of rural assets



Source: Savills Research, IPD, Defra

Drivers of value continued

> In addition, this demand will be strengthened by the fact that many farmers also cite investment as a reason to purchase land. Investment is also the key motivation for existing non-farming landowner buyers who continue to be a good source of demand.

The proportion of these purchasers changed significantly in 2008, representing buyers in 13% of all deals compared with only 3% in 2007. Corporate and institutional buyers continue to purchase around 10% of all farms. In 2008 investment was cited as the primary reason for buying in 29% of all transactions, significantly up from the 16% recorded in 2007. Graph 4 shows that rural land based assets have significantly outperformed alternative assets in recent years recording total returns of well over 20%. Even over the long term rural assets have recorded comparable performance to other assets with the exception of residential property.

We expect the interest in farmland as an investment to continue as it is an ideal hedge in times of economic volatility. It is a finite product which will continue to be in demand as the fundamentals of population, wealth and biofuels growth continue. Farm and estate ownership

also has tax benefits as well as offering opportunities from the diverse asset base, including residential and commercial property, often associated with these types of property. These factors are likely to create a two-tier market with the best quality properties in good locations being most highly sought after.

Overseas buyers are a significant and important source of demand, as illustrated in graph 5, which will no doubt continue in 2009. Their presence in the market in 2009 will be further enhanced by weak sterling discounting UK farms further. A 500-acre farm at £5,000 per acre at 90p per € would be worth €2.5 million compared with almost €3.6 million at 70p per €. In 2008 the Danes and Irish (mainly from Northern Ireland) represented 9.4% and 4.2% of all buyers respectively which was comparable with activity in 2007. Prospective purchasers from Ireland are beginning to show interest in UK farmland again. ■

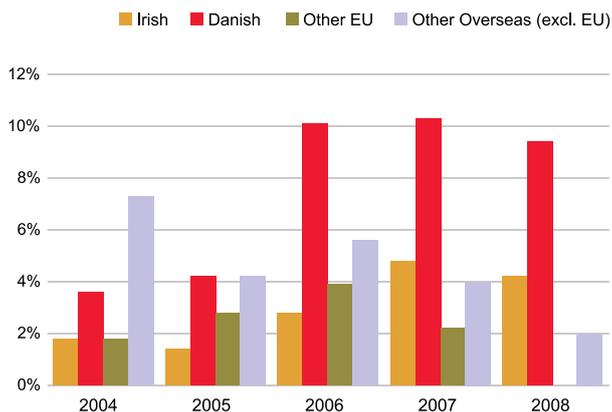
Outlook summary - quality prevails

Farmland has once again proved resilient to recessionary pressures as in the previous three recessions (mid 1970s, early 1980s and early 1990s) during the past thirty years. Farmland is also one, along with gold, of the world's principal defensive hedges and is sought after in times of economic volatility. Although some limited pressure on values was recorded during previous recessions the general upward trend was not stifled.

We believe this will again be the case in the current

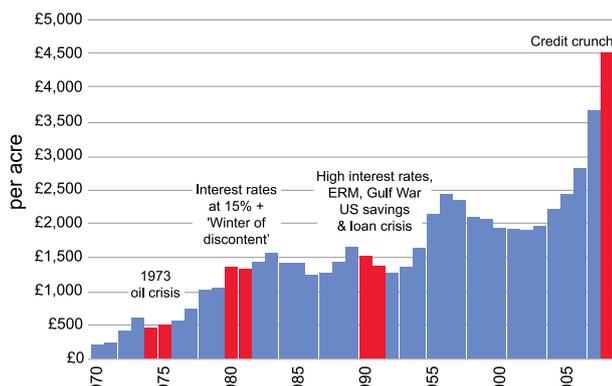
economic climate. Our forecasts for 2009 are that average values are likely to stabilise over the year dipping in the first half by up to 5% and regaining lost ground in the second half of the year. We expect a more distinct two-tier market than has been evident in recent years with good quality, well equipped, well located and commercially viable farms commanding the higher prices. Conversely poor quality land, in poor locations will be even harder to sell this year and values are likely to be the hardest hit for these properties. ■

Graph 5
Significant demand from



Source: Savills Research

Graph 6
Farmland resilient to recession



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- Identification of opportunities and threats from climate change and carbon mitigation
- Forecasting

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Savills Farmland Surveys

- The farmland values are derived from Savills Farmland Value Survey which is a comprehensive record of the value of a range of types and quality of bare agricultural land by region since 1992. It is based on the half yearly valuation of a static portfolio of nine types of bare land with vacant possession in 25 regions in Britain by a panel of agricultural valuers, comprising Savills valuers who are experts in their region. It is based on local expert knowledge which is sourced primarily from knowledge of local transactions but also takes into account special purchasers, unusual properties, and the tone of the market in the area.
- Supply data is collated by Savills Adverts database which includes details of all GB land over 50 acres marketed publicly in the national rural press since 1998 and represents a consistent and robust measure of activity in the farmland market.
- Savills farm agency market share ensures that details of sale results, including vendor and purchaser profiles, are gathered on a significant proportion of all transactions.

Savills plc

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