Agricultural Land Market Survey 2010

Savills Research

savills.co.uk/research

savills

In this, the 29th edition of the Savills Agricultural Land Market Survey, we look in detail at how farmland values have performed during the past decade and why. Using our new Farmland Value Model we also consider in which direction values are likely to move as the new decade unfolds.

Farmland values have shown, once again, a resilience to recessionary pressure. Despite the recession, average values increased by 134% over the past decade – the fourth fastest 10-year growth since 1800.

The volume of land traded continued to shrink, a trend that first emerged in the 1960s (see Graph 1). Market activity was severely disrupted twice; in 2001 when foot-and-mouth disease (FMD) raged through the country and again in 2003 and 2004 before the details of the Single Payment Scheme (SPS) were published.

Demand remains undiminished. In fact, the market is supported by funds of around £7.5bn. This is the approximate total amount of funds that Savills current farm applicants have to spend. However, it is unlikely that all of this money will actually find its way into land. Some buyers, frustrated by the inability to find what they are looking for will look to other investments, which are more easily accessible in the volumes required for modern-day trading.

Values – 2009

In 2009, according to our Farmland Value Survey, Grade 3 arable land values in England and Scotland increased by 7.2% and 3.8% respectively.

Our research shows that arable land values recorded the strongest growth in 2009. This was especially the case in the eastern counties, where average prime-quality arable land increased by 12.5% to £5,800 per acre.

"Optimism among farmers coupled with demand from UK and overseas investors, pushed up values to peak levels of around £9,000 per acre"

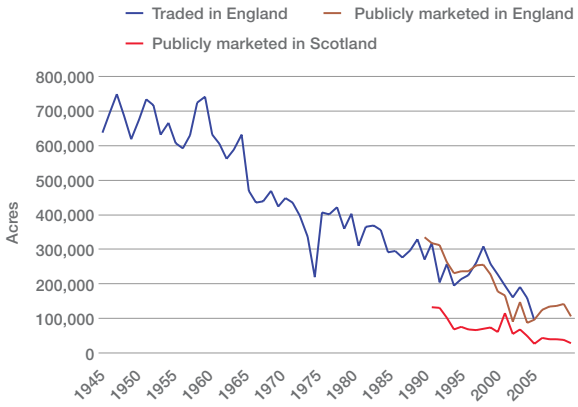
However, optimism among farmers coupled with demand from both UK and overseas investors, who in many cases sought sanctuary from the turbulence of other assets, pushed up values to peak levels of around £9,000 per acre on occasions.

The average value for all types of farmland across Great Britain increased 5.9% during 2009 to £4,450 per acre. Values have almost regained the ground lost in the second half of 2008 and the first quarter of 2009.

Farmland remains a good investment over the long term, with its steady performance comparable to alternative assets. Indeed, more recently, it has outperformed many other asset classes (see Graph 2). We expect the interest in farmland to continue, especially as the need to feed a growing population is now high on the political agenda. Also, the general trend for commodity prices looks set to remain positive, albeit with increased volatility.

"We expect the interest in farmland to continue, especially as the need to feed a growing population is now high on the political agenda"

Graph 1
The market place continues to shrink



Source: Savills Research

Graph 2
Rural assets remain resilient

Source: IPD / Savills Research (some 2009 data est.)

Values – a brief history

Looking back over two centuries of data it is clear that the farmland market took off after the Second World War. The need for greater output resulted in a 50% increase in the arable area, guaranteed prices and assured markets. All this brought a revival of interest in agricultural prospects and a 'sellers' market was established for vacant possession land. This led to land values increasing by 172% from £29 per acre to £79 per acre.

The most significant increase, almost 400%, took place in the 1970s, when values rose from £210 per acre and broke the £1,000 per acre barrier (see Graph 3). Also the price of wheat rose fourfold from £27 per tonne to £105 per tonne. However some of the shine was taken off this growth, when inflation topped 24% and interest rates reached 12% towards the mid-1970s. In addition, the UK joined the European Union in 1973.

Wheat prices stayed above £100 per tonne during the 1980s and average farmland values remained relatively stable. In 1986 values averaged just over £1,200 per acre and peaked at around £1,650 per acre in 1989. Milk quotas and Environmentally Sensitive Area schemes were introduced during this period.

Average values fell during the early 1990s after interest rates reached 15% in 1989, but soon recovered in the mid 1990s peaking at over £2,400 per acre as farm profitability increased on the back of high wheat prices. The residential property market was also buoyant and the average value of prime country houses rose at a rate of around 10% per annum.

Farming fortunes plummeted in the following years as wheat prices fell to below £60 per tonne. In 2001, the industry was hit by FMD and incomes continued to fall. However, farmland values continued rising at a pace as the strong link between values and profitability became increasingly diluted with the emergence of buyers, who were purchasing land for wealth and lifestyle reasons.

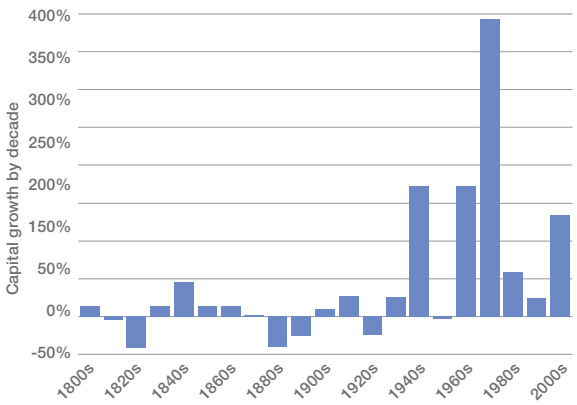
Supply

Our latest research shows that the volume of farmland publicly marketed remains very tight. Across Great Britain 143,000 acres were publicly marketed during 2009 compared with just over 193,000 acres during 2008, a fall of -26%. The long-term trend has continued and we expect supply to remain constrained during the next few years. In England, supply also fell by a similar amount (-25%) during 2009 with almost 107,000 acres publicly marketed, compared with 143,000 in 2008.

Activity in Scotland fell by -29%, with 27,500 acres marketed during 2009, compared with 38,600 in 2008. Graph 4 shows how the market contracted significantly in 2009 across all regions except in the south east of England, where supply was just 4% lower than in 2008. However, this was mainly due to the Tandridge and Chelsham Estates coming to the market, which amounted to 3,221 acres.

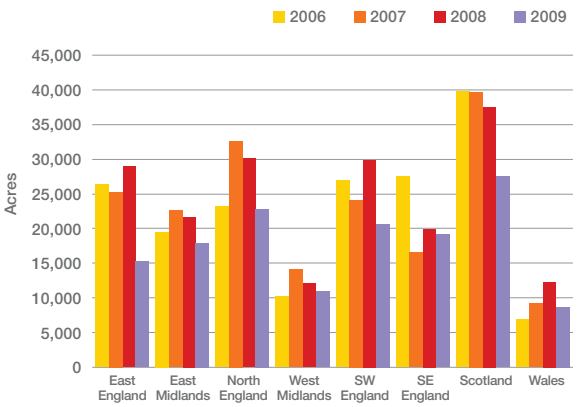
In England the greatest falls in supply took place in the East (-39%) and the South West (-47%). In the East supply fell to under 16,000 acres and to just under 21,000 acres in the South West.

Graph 3
Two centuries of farmland values



Source: Savills Research

Graph 4
Regional supply



Source: Savills Research

Sellers

Analysis of farm transactions, where Savills acted for the seller or buyer during 2009, indicates that farmers were once again reluctant sellers, representing, as in 2008, only 47% of all sellers. This was significantly lower than the previous two years, when they accounted for around 60% of sellers.

The proportion of non-farmers selling fell slightly to 38%, whereas the proportion of corporate and institutional sellers increased to 15% of all sellers (9% in 2008).

Debt became more of an issue in 2009, despite low interest rates, being cited in 10% of all sales compared with 7% in 2008. A detailed analysis of the figures shows that debt was not confined to farm businesses. Last year some non-farming owners of estates/farms capitalised on increased land values in order to raise capital to inject into a core non-farming business, which had suffered during the recession.

Selling to invest the capital realised elsewhere was only cited in 27% of sales compared with 33% in 2008, reinforcing our view that farmland remains one of the safest investment assets.

Buyers

The buyer profile has been dynamic over the past decade with a steady rise in the proportion of 'lifestyle' buyers (those whose primary motive is not income generation) in the early part of this century.

Farmers were the dominant buyers in the 1990s, but more recently an increasing proportion of farms and estates were purchased by non-farmers. However, the recession has taken its toll on those who secured their purchases from city bonuses and farmers have regained some of the market share.

In 2009, farmers represented 61% of all buyers, significantly more than the 53% recorded in 2008. New 'lifestyle' buyers represented just 21% of all buyers, similar to the 23% recorded in 2008.

There was little purchasing activity from corporate and institutional buyers – they purchased just 4% of all farms, compared with around 10% in the preceding four years.

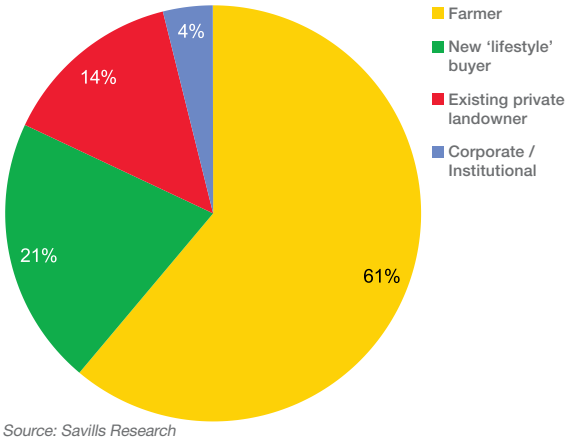
The key reason for buying was expansion (43% of all deals compared with 32% in 2008), with farmers buying to expand their businesses. The market in 2009 was dominated by sales of commercial farmland with just 28% of farms purchased for residential or sporting reasons.

Investment was cited as the primary motive for buying in 15% of sales, down from almost 30% in 2008, but similar to levels recorded in the previous five years.

As a means of purchase, rollover money was scarcer in 2009 than in previous years. Just 1% of purchasers used cash from development gain and 14% used rollover from the proceeds of sales. The low cost of borrowed money encouraged the use of loans to fund purchases in 30% of cases, compared with 24% in 2008.

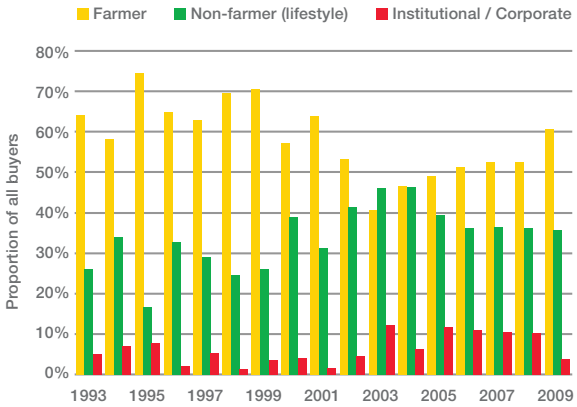
The number of overseas buyers dwindled in 2009. Our research shows that 95% of sales were to the domestic buyer. The remaining 5% was dominated by other European buyers.

Graph 5
Proportion of farm buyers 2009



Source: Savills Research

Graph 6
The changing buyer profile



Source: Savills Research

Forecasts

It is important to set UK farmland values in the context of the main world fundamentals of wealth and population growth, and a greater requirement for renewable energy, all of which are likely to create a positive backdrop to values.

Savills Research has just launched its Farmland Value Model which has been developed:

- From a statistical analysis of an extensive list of possible factors that may impact on farmland values
- From testing the relationship of everything from wheat price, farm incomes and house prices to GDP, exchange rates, oil and gold prices, interest rates and population density with farmland values
- Looking at both absolute numbers and the relative change between years
- By analysing 35 years of historic data; and to give a 'modelled' farmland value series that is a good and logical 'fit' to actual land values

Therefore, our model gives a robust foundation from which to compute our forecasts. Our modelled baseline forecasts are illustrated in Graph 7.

Our model predicts that average Grade 3 arable values could reach £7,000 per acre in England and more than £5,000 per acre in Scotland by 2015 (see Graph 8).

However, the current range in values achieved is wide, and good-quality land is already topping these figures. Applying our forecasts to these figures could see the best land reaching £10,000 per acre well before 2015.

In addition, there will be variations in the rate of growth of values which will be determined by:

- Farm size, quality, type and location
- Variation in the prime country house markets
- Supply – mainly debt pressures which will vary by farm type, ownership, and off-farm business activities
- Demand – especially the strength of demand for commercial units versus amenity and residential properties

The model does not include an adjustment for low supply or supply constraints. Our research and the output from the model suggests that supply constraints may not have impacted on farmland values to the degree that we had all had presumed.

A closer examination of supply levels and historic values suggests that, in many areas, the market is far from saturated. This is especially so in Scotland, the East of England and the South West of England.

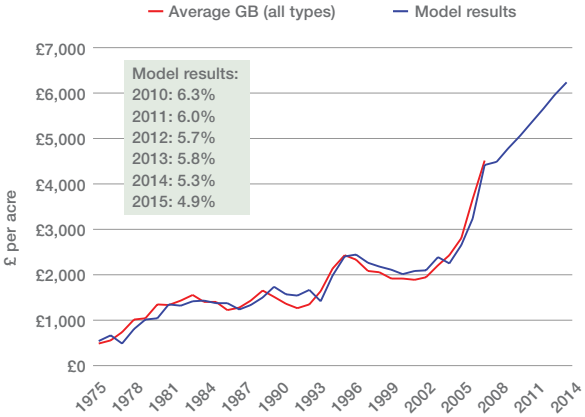
Our research suggests that across England, the market could easily cope with over 130,000 acres (107,000 publicly marketed in 2009) whereas in Scotland supply could be double the 27,000 acres publicly marketed last year before values begin to come under pressure.

We expect supply nationally to remain constrained over the next few years. Apart from the traditional reasons for selling there is little else to motivate landowners to sell.

The strongest influence of any potential increased supply is likely to be debt and we expect this factor to remain small.

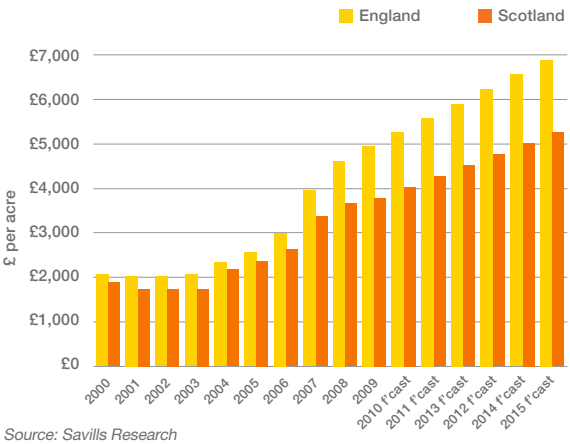
Our research concludes that in many areas a greater supply would create a more 'normal' market place and our forecasts are likely to hold true even if more land does come to the market. ■

Graph 7
Average values – future growth?



Source: Savills Research

Graph 8
Arable (Grade 3) values actual and forecast



Source: Savills Research

Rural Property and Business Research Services

Savills operates a substantial property research department based in London. The department offers a uniquely wide and in-depth perspective of property markets, with specialists in the rural, residential, commercial and leisure sectors.

Our rural research specialists are a leading source of information and analysis relating to the GB rural property market. While adding value to Savills rural consultancy services, these specialists also work directly for a wide range of public and private sector clients.

Rural research services include:

- In-depth analysis of UK and International land markets
- Rural estate benchmarking
- Investment strategy and advice
- Analysis of the implications of changes to agriculture and the rural economy
- Identification of opportunities and threats from climate change and carbon mitigation
- Forecasting

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.

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 plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

savills