



Market Survey **UK Agricultural Land**

2015



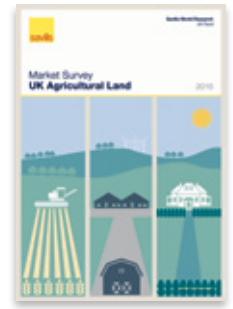
The farmland values are derived from Savills Farmland Value Survey, which is a comprehensive record of the value of a range of types and quality of bare agricultural land by region since 1992. It is based on the quarterly valuation of a static portfolio of 9 types of bare land with vacant possession in 25 regions across Great Britain by a panel of Savills agricultural valuers and others who are experts in their region. It is based on local knowledge, which is sourced primarily from local transaction information, but also takes into account special purchasers, unusual properties, and the tone of the market in the area at that time.

The survey is a general indicator of market conditions at the time of the survey, with no reference to future market conditions. The data is for general informative purposes only and should not be used as the basis of any property valuation or appraisal. Range values are not definitive and they do not indicate realisable values on a forced sale.

Savills accepts no liability whatsoever for any direct or consequential loss arising from the use of this data.

Foreword

GETTING TO KNOW YOUR MARKET



A clear understanding of local conditions is critical in an increasingly diverse marketplace

At 131,000 acres, the amount of land publicly marketed across Great Britain during 2014 was the smallest since our records began in 1995. Compare that to the years immediately following the end of World War II, when we know that around 650,000 acres were traded annually in England alone.

Conversely, multifaceted buyer types fuelled strong demand and Savills Farmland Value Survey shows that the average value of prime arable farmland nationally strengthened by 14% to almost £10,000 per acre in 2014. This follows a 12.3% rise in 2013 and a substantial 277% increase in average prime arable values during the past 10 years.

However, average values conceal regional variations and the farmland market is increasingly diverse in terms of value and the prices achieved. Factors including land quality, position and local demand are key to achieving the best prices.

Farmers, as would be expected, continue to be the predominant buyers of farmland but they are not alone. They are competing with non farmers or 'lifestyle' buyers and institutions. For farmers – expanding the farming business remains the core reason for purchase. Buying land, providing it is strategically located, enhances the opportunity for economies of scale and therefore greater influence over suppliers and customers. The use of larger machinery helps to drive costs down and margins up.

We expect further growth in UK farmland values in 2015 but the market will become more diverse and a clear understanding of local market conditions will be critical to buyers and sellers to ensure realistic price expectations are established. There will be factors that are likely to

dampen the average rate of growth, which has been a significant feature of this market for the past decade.

Agricultural incomes are inversely correlated to economic growth and continued improvements in the economy will put some pressure on farm incomes and therefore capital and rental values across all types of land and farming businesses.

We are already seeing pressure on commodity prices and this is likely to continue this year, affecting farm profits and cash flows, which may lead to increased supply in some local markets.

Political uncertainty will be a key market factor in 2015. During 2014 the Scottish Referendum and the publication of the Land Reforms had a significant effect on the Scottish market, both in terms of reduced activity and stifled value growth. The political agenda in Scotland will continue to be of influence this year, but the early indications are of a higher volume of land coming to the market than in 2014. In 2014, 32,000 acres of farmland were publicly marketed in Scotland – a quarter of that recorded in 2000. History also shows that the run-up to a General Election will add a layer of uncertainty to the market.

In conclusion, additional farmland remains an obvious target for business expansion and a key element for diversification and risk mitigation in investment portfolios but equally, following very substantial gains in recent years, the current strength of the market offers an opportunity to release capital. ■



Alex Lawson
Director,
Farms and estates
020 7409 8882
alawson@savills.com

2014 SUMMARY



Supply of publicly marketed farmland reaches historically low levels, while values continue to strengthen
See pages 04/05



The proportion of farmer buyers continues to fall, with lifestyle buyers becoming increasingly active
See pages 06/07



Strong capital growth was a key theme in 2014 across all real estate asset sectors, including agriculture
See page 08



Quality remains vital for investors in 2015. Top picks include large commercial farms and rural estates
See page 9



Further growth in farmland values is expected in 2015, but the market continues to be diverse
See page 10

Agricultural Land Supply and Values 2014

Supply 2014

The smallest number of acres (131,000) was publicly marketed across Great Britain during 2014 since our records began in 1995 and at least since the end of World War 2, when we know that around 650,000 acres were traded in England alone. Graph 1

illustrates the long term contraction of the farmland market and shows it has generally plateaued since 2003.

We estimate that the private market currently adds around an additional 30% of acres and therefore total activity is about 170,000 acres which is still a long way off historical levels. In England, levels of supply have

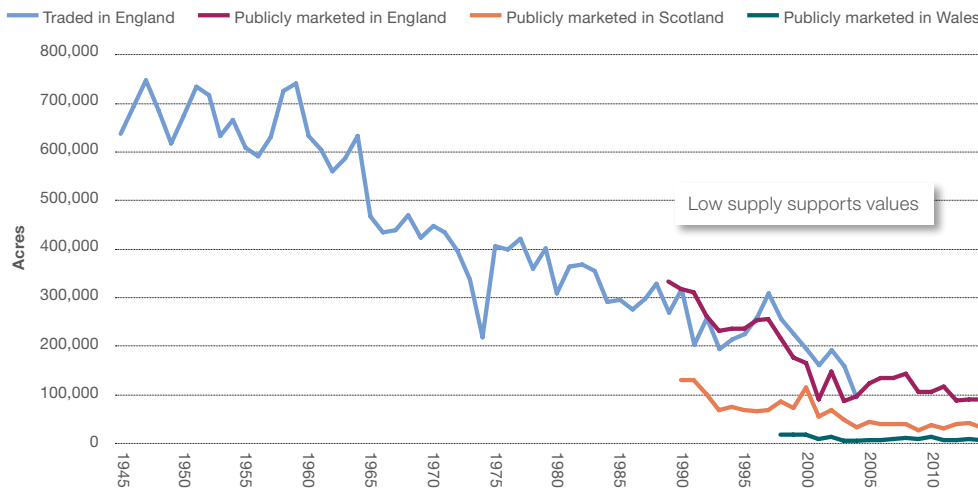
remained fairly constant over the past three years at around 90,000 acres (see Graph 2). However, this is still 16% less than the amount of farmland marketed in England in 2011, 33% less than in 2008 and 56% less than in the year 2000.

In 2014, across England increased activity was recorded in the East of England, the South West of England and the West Midlands. There was a decrease in activity in the East Midlands, the North of England and the South East of England

In contrast, the Scottish Referendum, the proposed Land Reforms and the latest CAP reforms had a significant effect on the Scottish market in 2014 where supply was only three quarters of that recorded in 2013 and a quarter of that recorded in 2000; at just 32,000 acres.

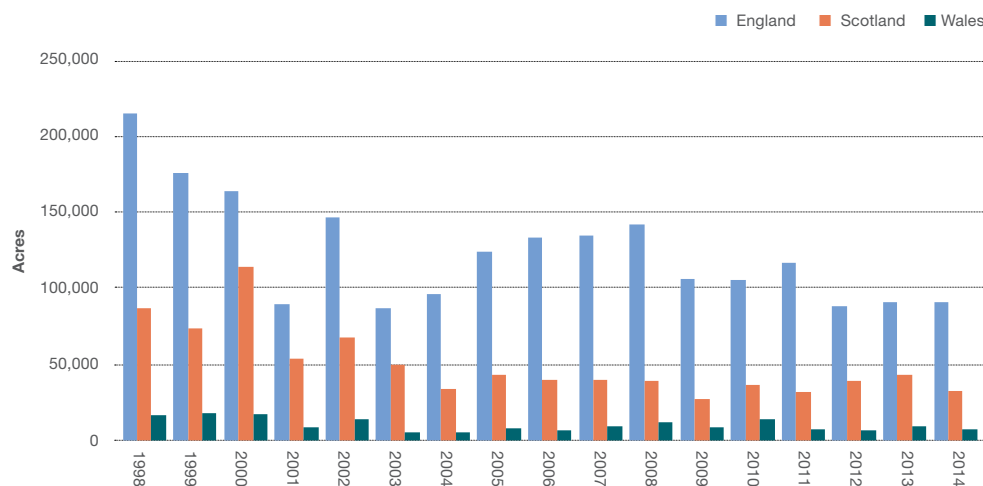
Similarly, the volume of publicly marketed farmland significantly decreased in Wales to 7,300 acres. A decrease of -21% on 2013 and a significant 58% lower than the volume marketed in 2000. The latest CAP reforms and the introduction of a regional based subsidy system contributed towards uncertainty in the Welsh market.

GRAPH 1 Long term contraction of the farmland market



Source: Savills Research

GRAPH 2 The prospect of change impacts on market activity



Source: Savills Research



2014 witnessed the smallest number of acres publicly marketed since records began



Average value of prime arable farmland has increased by 277% over past 10 years

Values 2014

According to the Savills Farmland Value Survey, the average value of prime arable farmland across Great Britain strengthened by 14% to almost £10,000 per acre in 2014. This follows a 12.3% rise in 2013 and a 277% increase during the past 10 years.

The average capital value of farmland has shown very significant growth over the past decade – in fact over 250% (see Table 1). Average values do conceal regional variations and the farmland market is increasingly diverse in terms of value and the prices achieved. Factors including land quality, position and local demand are key to achieving the best prices.

There appears to be a widening gap between farmland values in England and those in Scotland and Wales (see Graph 3). This is largely driven by the flight for quality particularly in respect of arable farmland, which is generally concentrated down the eastern regions of England and Scotland. If this gap continues widening, the opportunity for investors to acquire land in Scotland starts to become quite compelling.

In England, the average value of prime arable land increased by 14.9% to £10,000 per acre during 2014. This follows a 12.3% rise in 2013. Growth was seen in all regions and across all land types although, as mentioned above, the highest growth was for quality often unencumbered blocks of arable land.

During 2014, the strongest growth in values was recorded in the South East of England where prime arable land increased in value by 23.7% to average just over £10,000 per acre. Other regions which fared well included the West Midlands (20.8%) and the North of England (17.5%).

In Scotland, farmland values, despite the significant reduction in supply, stayed static with political uncertainty being a key factor.

The average value of prime arable farmland increased by 3.6% in Wales to £7,250 per acre following no growth in 2013. In Wales, the strongest growth (7.8%) in 2014 was recorded for poor livestock land which increased to an average £4,300 per acre, while the value of grade 3 arable land rose by 6% to average £6,025 per acre. ■

TABLE 1

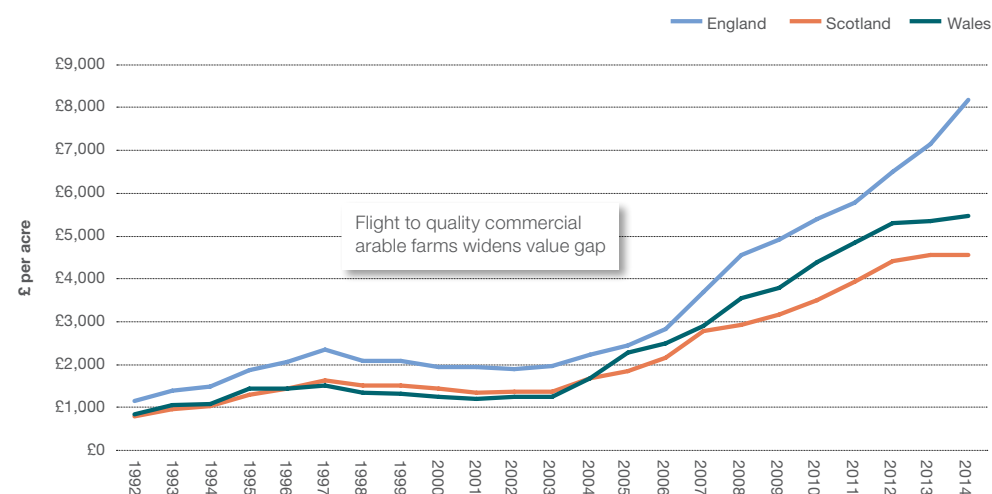
Historical value growth over the past two decades

Type	2004 to 2014	1994 to 2004
Prime arable	277%	41%
All types	254%	40%
Poor grassland	260%	38%

Source: Savills Research

GRAPH 3

Diverging farmland values across Great Britain



Source: Savills Research



Agricultural Land Buyers and Sellers

Our analysis of farm transactions across Great Britain, where Savills acted for the buyer or seller, shows that the demand for UK farmland is diverse – both in the types of buyer and seller and their motives.

Sellers

On the selling side, our research suggests that 2014 was the first year since we began our analysis in 1992 that non farming (lifestyle) sellers were more active than farmers. Traditionally farmers have been the principal farm sellers and between 1995 and 2007 represented over half of them peaking at almost three quarters in 2000 (Graph 4).

Farmers cite retirement (40%) as the principal reason for selling with another 23% selling for debt related reasons, with other personal reasons including death and relocation. The remainder indicate that they are making the strategic decision to sell and reinvest the capital outside of farming.

On the other side of the equation, our research indicates that sellers whose primary motive for owning land is not farming are principally selling to relocate (44%).

This has created a degree of liquidity in the market as these properties tend to come to the market more frequently than those which have been in farming families for generations. In addition:

- Debt is also an issue for non farming landowners and 14% cite this as a reason to sell, although research shows this is a significantly lower proportion than in the height of the recession
- 30% of these sellers are selling to invest in non farming assets and with the significant growth in farmland values over the past decade they are likely to be selling at a good profit
- Family and personal reasons, including death, are cited in the remainder of sales.

As would be expected, almost all (90%) of institutional and corporate, including developer, sellers are investing elsewhere although this group is not immune to debt, which was the reason for sale for the remaining 10%.

Buyers

The proportion of farmer buyers has fallen significantly over the past few years and in 2014 they represented 45% of all buyers down from 60% in 2011 (Graph 5). The last time the buying activity of farmers was at this level was in 2003 and 2004 the years before the Mid Term Reform of the CAP.

This suggests the uncertainty surrounding CAP reforms, the political issues, which include the General Election and the Scottish Referendum, and the pressure on farm incomes as commodity prices fall have made farmers more cautious about taking on large capital commitments in the current economic and political climate.

Expansion of the farming business remains the core reason (around 85%) motivating farmer buyers, with the remainder relocating or buying the freehold as a sitting tenant.

Graph 5 shows that in the late 1990s farmers were consistently the most active buyers but since 2000 the competition from non farmers or 'lifestyle' buyers (those whose primary objective is not income from farming) strengthened and they represented 40% to 50% of

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 "Expansion of the farming business remains the core reason motivating farmer buyers"
 Savills Rural Research

GRAPH 4
Farm sellers



Source: Savills Research

all buyers in the mid noughties. The recession reduced the activity of non farmers and especially those who were new to the market. In 2014, our research indicates that new 'landowners' are beginning to return to the market, representing 23% of all buyers compared with 15% in 2013.

In contrast to farmers, private non farming buyers are citing the principal reason for buying farmland as residential and sporting (40%) and capital investment including tax benefits (55%).

Institutions and corporates are important buyers and now represent around 10% of all buyers. They are driven by the opportunity farmland represents to:

- Diversify portfolio (inverse correlation to other property assets)
- Farmland has proved a safe and secure investment over the long term and in recent years has outperformed many other assets
- Strategic development opportunities
- Long term reversionary uplift.

The proportion of overseas buyers has remained steady over the past three years at around 8%. This is almost double the activity of these buyers during the recession (2009 – 2011) but still significantly below the mid noughties when they represented over 20% of all buyers.

The effect of the diverse demand profile for UK farmland compared with nations where values are much more closely correlated to farm output and commodity prices is significant as illustrated in Graph 6. The graph shows farmland values in domestic currency to eliminate any exchange rate effect. ■

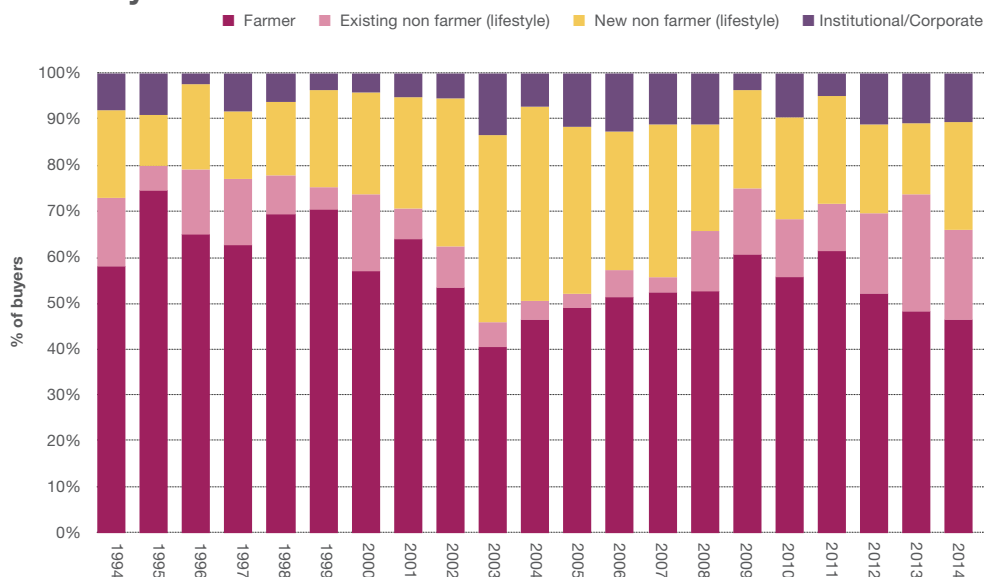


Non farming (lifestyle) buyers more active than farmers in 2014

15%

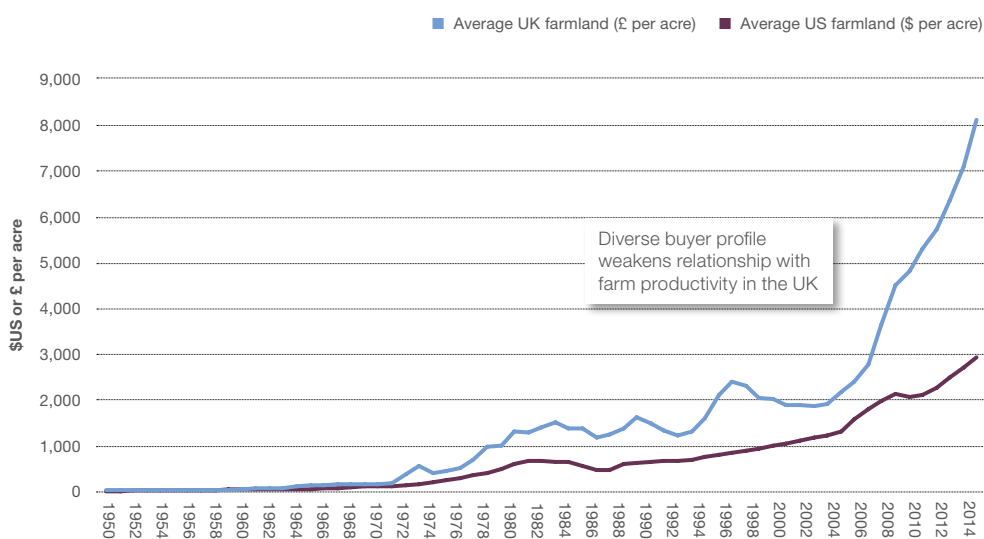
Decrease in the proportion of farmer buyers since 2011

GRAPH 5 Farm buyers



Source: Savills Research

GRAPH 6 USA farmland values more closely aligned with farm output



Source: Savills Research

IT'S A ROLLOVER

Use of rollover funds increasing with buyers

Cash remains the main source of purchasing power often including rollover funds accounting for 80% of all buyers. This is an even stronger position than the 74% recorded in 2013. The use of rollover money is increasing with buyers using it as a means of purchase in 5% of deals

compared with 2.5% in 2013. However, this is still a long way from the very significant 25% recorded pre recession, but we fully expect rollover buyers to be much more prevalent over the next five years with the main target being large commercial units.

Agricultural Land

Property assets comparison

Strong capital value growth was undoubtedly the key theme of 2014, with growth across all sectors stronger than we were forecasting at the beginning of the year. We expect to see continuing capital value growth across all prime sectors in 2015, albeit at a slower rate.

The general election in May will definitely have some effect on sentiment, though in the agricultural and commercial sectors we expect the effects to be relatively muted. In the residential markets the spectre of mansion tax, combined with the Mortgage Market Review could lead to a more sustained hiatus in capital value growth in 2015.

Generally, we expect that the macroeconomic story for the UK will remain benign, with base rates remaining unchanged until the

second half of the year or possibly 2016, and the combination of low oil prices and recovering incomes giving a boost to the UK consumer.

The high returns that will be thrown off by all property sectors in the UK will continue to attract attention, and we expect that UK real estate will continue to deliver high returns in comparison to other asset classes.

This will mean that domestic and international demand for prime and good secondary assets will be strong, though we expect to see more focus on supply and demand fundamentals in 2015, rather than just the potential for yield shift.

Overall, we expect that 2015 will be another strong year for UK real estate, but investors are going to have to work harder to identify markets and sectors that will deliver high returns.

Graph 7 illustrates the relationships between property sectors.

Commercial view

The commercial markets in 2015 will still offer opportunities for both risk-averse and risk-embracing investors, though the stronger than expected bounce in capital values in 2014 will diminish.

Residential view

Following a year of strong mainstream house price growth in 2014 that ran well ahead of the economic recovery, we expect much more subdued price growth in 2015.

This is particularly the case in London, which has now outperformed the rest of the UK for over nine years and where correspondingly, affordability is likely to look increasingly stretched as interest rates rise.

Farmland

We expect further growth in UK farmland values in 2015, but the market will continue to be diverse and a clear understanding of local market conditions will be critical to both buyers and sellers to ensure realistic expectations. ■

For further detail see page 10

GRAPH 7

Returns matrix The relationship between income and capital returns by property sector



Source: Savills Research

WHAT ARE THE TOP PICKS FOR 2015?

Commercial

■ London offices and retail

Low vacancy rates and strong rental growth prospects support the low yields. Best growth to come in "future core" locations and high quality transport nodes.



■ Retail

Secondary pitches in prime locations, and London suburbs. Secondary markets with affordable rents to witness rental growth from mid 2015 as housing markets recover.



■ Industrial

Lack of supply investment stock across the country will see investors move up the risk curve so units let to strong covenants outside of core locations will become attractive.



Residential

■ London commuter towns

The price differential between London and these towns widened further in 2014 and is likely to present opportunities for those looking to upsize without incurring significant additional cost.



■ The £750k-£1.5m market

Largely unaffected by risks of mansion tax and less dependent on mortgage finance than the mainstream, this market can benefit from those looking to relocate and buy a property below potential tax thresholds.



■ 3 bedroom investment stock

Increasingly households are renting in later life stages, which enables investors to buy small family housing to bring diversity to their residential investment portfolio.



Agricultural

■ Large quality commercial farms

Scale and the opportunity for top quartile income potential whilst owning a tax efficient asset for the transfer of wealth will ensure demand remains strong for these properties.



■ Quality rural estates

A diverse portfolio of property assets offering good income potential, that is free of commodity price volatility, will continue to be a safe purchase.



■ Residential farms

These may offer opportunities as the economy improves and especially so where recognised as good value when compared to arable land and where improvements will enhance future value.



Outlook

Forecasts

We expect further growth in national farmland values in 2015 but the market will continue to be diverse and a clear understanding of local market conditions will be critical to both buyers and sellers to ensure expectations are realistic.

The fundamental reasons supporting the farmland market across Great Britain remain and include:

- The strength of demand relative to the historically low supply
- Farmland is a finite and decreasing commodity. The Utilisable Agricultural Area is declining by around 84,000 acres per year being lost to infrastructure, development, woodland expansion (which has increased nearly four times over the past 30 years), non-agricultural use (golf courses, minerals etc) and erosion

- The competing uses for land are diverse and include food, energy, infrastructure, diversified enterprises and diverse ownership or lifestyle incentives
- The long term investment performance is comparable with alternative assets and farmland has added tax benefits and, in some cases, the opportunity for substantial uplift in value through strategic development.

In addition the farmland market in Great Britain is transparent and a safe haven for wealth, and any economic uncertainty at a global or EU level may increase private and institutional investor interest. It also offers the potential opportunity for:

- Diversifying investment portfolios (farmland has an inverse correlation to other property assets)
- Strategic development gains and:
- Long term reversionary uplift.

However, there are currently more downside pressures than we have seen for several years. Although we do not expect the value of farmland to fall significantly we believe that, in certain segments of the market, growth may be zero or at best very weak (see Table 2). This will be for poorer quality land, where local supply outstrips weak local demand.

The key areas of concern are:

1. Agricultural incomes are inversely correlated to economic growth and continued improvements in the economic climate will put some pressure on farm incomes and therefore capital and rental values across all sectors.

We are already seeing pressure on commodity prices and this is likely to continue into this year affecting farm profits and cash flows and may lead to an increased supply at a local level.

2. Interest rate rises are inevitable at some stage although we don't expect these to have an impact on the market until at least 2016. They will add pressure to farm businesses

already struggling to service debt and will contribute to more acres coming to the market.

3. Political uncertainty will be a key market factor in 2015. During 2014 the Scottish Referendum and proposed Land Reforms had a significant effect on the Scottish market, both in terms of reduced activity and stifled value growth. Across the UK the run-up to and potential outcome of the General Election may create some uncertainty.

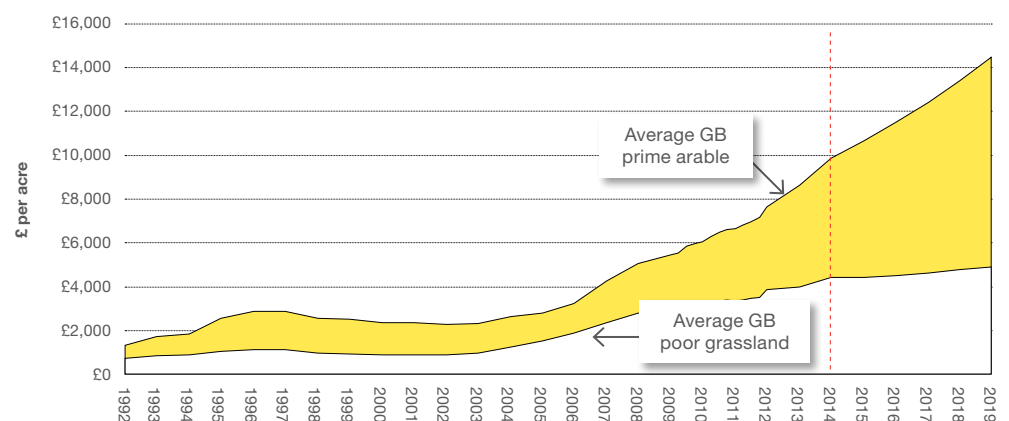
4. Alternative assets such as commercial and residential property are beginning to look more attractive and especially the former if income yields are a driver. ■

TABLE 2
Our farmland forecasts (GB All Types)

	Top quality	Average quality	Poor quality
2015	8%	4%	0%
2016	8%	5%	2%
2017	8%	6%	3%
2018	8%	6%	3%
2019	8%	6%	3%
5 yr	47%	30%	11%

Source: Savills Research

GRAPH 8
Forecasts – diversity continues with weak growth at bottom end of market



Source: Savills Research

Savills Farm Agency team

Please contact us for further information



Ian Bailey
Head of Rural Research
01797 230 156
ibailey@savills.com



National
Alex Lawson
020 7409 8882
alawson@savills.com



Midlands
Will Parry
01522 508 921
wgparry@savills.com



Central/West
Richard Binning
01865 269 168
rbinning@savills.com



North
Andrew Pearce
01522 508 933
apearce@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



South West
Penny Dart
01392 455 747
pdart@savills.com



Wales
Daniel Rees
029 2036 8915
drees@savills.com

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33 Margaret Street
London W1G 0JD
020 7499 8644

savills.co.uk

