

MARKET IN MINUTES

GB Farmland Market

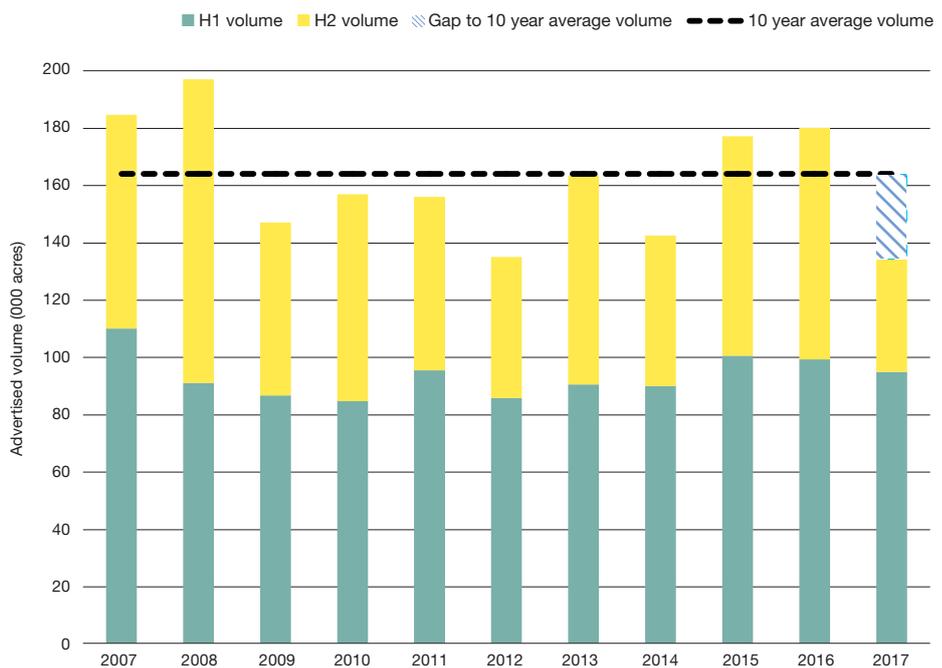
Supply of farmland

Despite a substantial volume of farmland (39,370 acres) coming onto the market during Q3 2017 in Great Britain the year-to-date supply stands at 134,400 acres, which is 16% less than at the same period of 2016. Set in an historical context the Q3 supply is 26% below the 10 year average third quarter volumes.

Since 2007, the UK average annual supply equates to 164,195 acres, and as expected is marginally weighted towards the opening half of each year. We calculate around 29,800 acres of new supply is required during Q4 2017 for the annual supply to match the long-run average. This would be 70% above average Q4 volumes for the past 10 years. As such a material increase is doubtful, and indicators point to supply remaining constrained through to 2018.

At a country level, the greatest contraction in supply occurred in Wales, down 47% year-on-year; in comparison to Scotland and England where the dip was more modest at 14%. The regional variation within England mentioned in last quarter's update persists. Supply in the South East and West dropped by 30% but the West Midlands bucked the trend with a 65% year-on-year increase.

GB advertised farmland market volumes A comparison of 10 years supply



Source: Savills Rural Research

Values

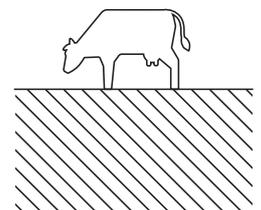
Our Farmland Value Survey continues to reveal muted pricing across 'all-land' types with values down 2.2% year-to-date and 1.3% from the previous quarter.

The current average value of

£8,956 per acre for GB prime arable land is now 9% below its 2014 peak of £9,870 per acre but the range in values currently achieved continues to be significant and very localised

albeit all areas have recorded modest declines in value.

The greatest average fall in values for all land types was recorded in the East Midlands at 4.6%.



GB farmland A comparison of GB regional values



Source: Savills Rural Research



Market outlook

The current political and economic uncertainty continue to drive market sentiment with clarity over post-Brexit trade arrangements still lacking.

A stronger euro against the pound has affected the value of euro denominated subsidy payments, compressing unhedged revenues by circa 14% since the vote to leave the EU, and in turn contracting yields from operating agricultural land.

Although the shape and extent of longer-term financial support has yet to be established by the UK Government, it is widely held that the emphasis will shift away from production, which may well force further change within the industry.

Furthermore, noise from Central Banks points to an earlier rise in interest rates than previously anticipated, which will increase both the cost of borrowings and

expectations on acceptable yields.

Whilst the rise is unlikely to occur at a pace that will shock the market, we may see more buyers constrained by higher interest rates.

Into the medium-term, continuing uncertainty may keep supply constrained during 2018 as sellers postpone decisions until a better understanding of the longer term agricultural payment structure is known.

Continuing uncertainty may keep supply constrained during 2018



Market commentary



England

Alex Lawson

Macro-economic and political uncertainty have adversely impacted supply more so than values in England.

This has helped support values and on average the price achieved for prime arable land is only down 1.5% from Q2 2017 and 2.5% year-on-year to £9,060 per acre.

Whilst the appetite for land ownership remains we are

definitely seeing an increased focus on quality land which is priced at fair value.

Last autumn's renewed interest in residential and amenity farms and estates has carried over to this year. There have been some notable sales and new launches with a broad cross section of buyers both domestic and from overseas.



Scotland

Charles Dudgeon

The attraction of better value and ring fenced units of scale continues to entice buyers from south of the border, particularly from northern counties such as Yorkshire, Lancashire, Cumbria and the Midlands.

We also note a bolstering in buyer confidence as the threat from a second independence referendum softens, highlighting the

attractiveness of the value gap between England and Scotland.

Looking forward, we see the restriction in supply lingering into 2018 until the market gains further clarity on the impacts of Brexit on the rural sector. Whilst uncertainty often prompts the risk averse to mark time, some players can be opportunistic, capitalising on the effects of heightened volatility to sow the seeds for future land price growth.



Wales

Daniel Rees

Supply is materially down at 7,300 acres year-to-date, 50% below 2016's full year transaction volume. Yet we note some encouraging signs as sellers testing the autumn market doubled supply volumes from the end of Q2 2017. Attractive units in the Pembrokeshire coast & Brecon Beacons National Parks captured the interest of "lifestyle" buyers

seeking both acreage and value for money. Farming businesses are still active market participants but face increasing competition from those seeking a lifestyle package or investment returns. Average values dipped by 2% from the previous quarter to £5,350 per acre and remain depressed compared with last year, down 3.5% from December 2016 across all land types.

Savills Farm Agency team

Please contact us for further information

National Alex Lawson 020 7409 8882 alawson@savills.com	Central/West/Wales Richard Binning 01865 269 168 rbinning@savills.com	East Christopher Miles 01603 229 235 cmiles@savills.com	Midlands Andrew Pearce 01522 508 933 apearce@savills.com	North Andrew Black 01904 617 831 ablack@savills.com	Giles Hanglin Head of Rural Research 020 7016 3786 ghanglin@savills.com
National Giles Wordsworth 020 7075 2823 gwordsworth@savills.com	Scotland Charles Dudgeon 0131 247 3702 cdudgeon@savills.com	South George Syrett 01962 834 052 gsyrett@savills.com	South East Chris Spofforth 01444 446 064 cspofforth@savills.com	South West Penny Dart 01392 455 747 pdart@savills.com	Julie Baxter Analyst, Rural Research 07807 999 896 jbaxter@savills.com

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