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Market in Minutes
UK Farmland Market Q2

July 2015

SUMMARY

Growth in arable values has steadied in some locations

■ Farmland values in Great Britain increased by 0.2% during the first half of 2015, continuing their long-term trend although the rate of increase is slowing.

■ The market has become more finely balanced, with a greater range in farmland values than in the recent past, with prices very dependent on local supply and the number of potential buyers.

■ 5% more land was publicly marketed across Great Britain in the first half of 2015 compared with 2014 but this is 1% less than the five year average. In England, there was 13% more for sale but 7% less in Scotland and over 50% less in Wales.

■ Non-farmer buyers have overtaken farmers as the main type of buyer, with the proportion of farmers falling slightly, due to weaker sentiment of some farmers due to lower current commodity prices. Farmer buyers are now at their lowest proportion since 2003.

■ However, the fundamentals of land ownership still remain secure and the medium term (five year) outlook for commodity prices is relatively positive. →

"The market is finely balanced and there is a greater range in values than in the past"

Values

Our Farmland Value Survey shows that the rate of growth in the average value of 'all types of farmland across Great Britain has continued to slow; recording just 0.2% during the first half of 2015 compared with 0.5% during the first quarter.

However, the headline figures hide a number of interesting trends and changes. During the second quarter of 2015 average values across all land types have remained stable in Scotland, where values have remain unchanged since the end of 2013, the North of England and the South West of England.

The increase in average prime arable value growth has steadied with values, from record levels, softening (for the first time in six years) by -4.8% in the East of England, by -3.9% in the East Midlands and zero growth in the North of England (see Graph 1).

In contrast, as Graph 1 also illustrates, growth has continued in the West Midlands (1.9%) and the South East of England (2.6%).

The localised fall in prices may reflect a market where there is evidence of more price sensitive demand coupled with reduced competition between farmer and non farmer/investor buyers.

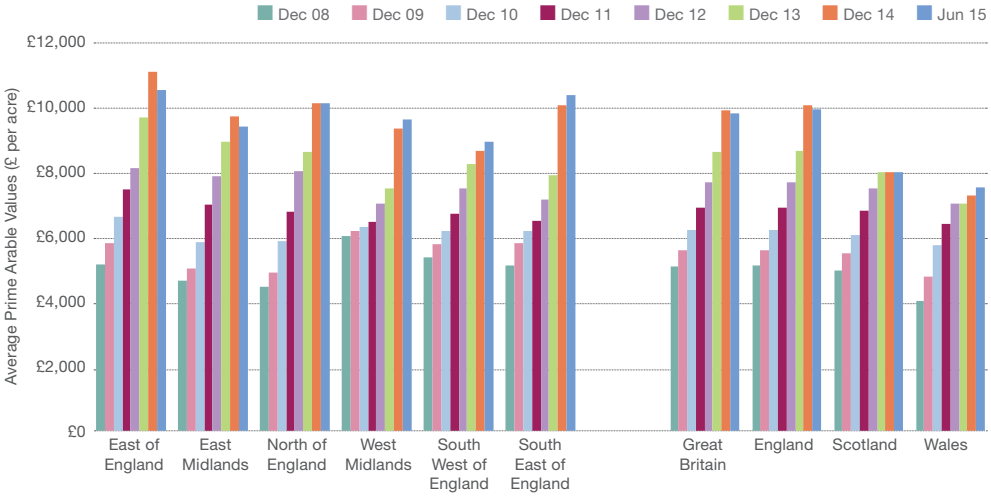
Conversely, average grade 3 grassland values, which in recent years have recorded slower growth than arable values resulting in a divergence of values of up to £4,000 per acre (see Graph 2), continue to strengthen.

Average grade 3 grassland increased in value by almost 1% across England. The largest increases were again recorded in the West Midlands (2.1%) and the South East of England (2%) suggesting the improved confidence in the residential market has boosted demand for residential and diversified farms and estates. In addition, these farms are seen as good value relative to arable farms.

The market is finely balanced with a greater range in farmland values than in the recent past with sale prices very dependent on accessibility and the number of potential buyers.

GRAPH 1

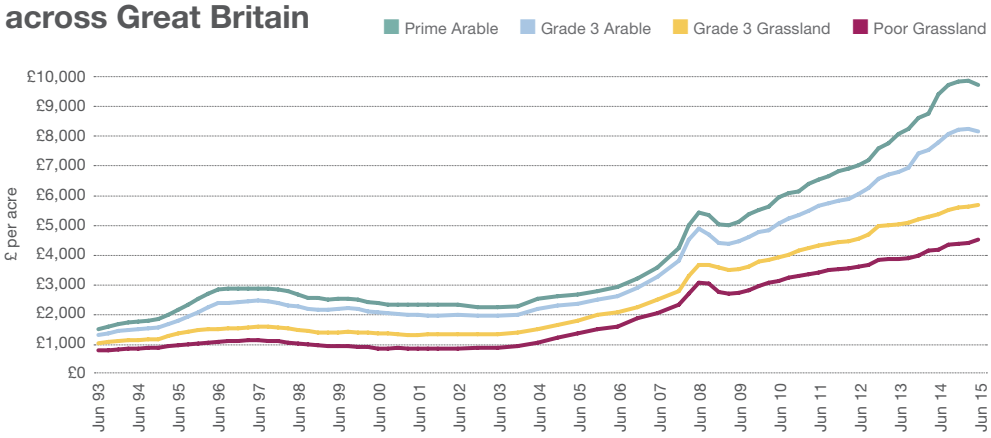
Average Prime Arable Values soften in the Eastern counties



Source: Savills Research

GRAPH 2

Divergence in average arable and grassland values across Great Britain



Source: Savills Research

Supply

85,000 acres were publicly marketed in Great Britain in 2015 to the end of June, which is 5% more than in the same period in 2014 but 1% less than the average of the same period of the previous five years (2010-14).

In England 13% more land was publicly marketed in the first half of 2015 (65,500 acres compared with 57,100 acres in the same period of 2014), which is 7% more than the five-year average of 60,100 acres.

Supply in Scotland fell by -7% to around 18,500 acres which was very similar to 2013. Here sellers and buyers continue to be affected by uncertainty surrounding land reform, the general election result and reform of the Common Agricultural Policy.

Welsh land supply has dwindled most dramatically, with only 1,900 acres for sale so far in 2015. This is less than half the area marketed in 2014 and of the average area over the past five years.

There are significant variations in activity across the regions in terms of acres (see Table 1), and the number of farms.

Average grade 3 grassland values continue to strengthen

Almost half of the acres advertised were arable compared with around 30% in the previous four years. This shift and the regional increases in supply noted in Table 1 are, to some degree, reflected in the pressures on the arable and regional value growth noted earlier.

The supply data in this report is derived from publicly marketed farmland. Anecdotal evidence suggests the private market for farms and land remains active. 'Off market' activity levels in the past few years are probably at their highest for several decades.

Sellers and Buyers

Our analysis of farm transactions, where Savills acted for the buyer or seller, for the first half of the year indicates that the profile of sellers remains similar to the past two years. Farmer and non-farmer sellers each represent around 45% of all sellers with the remaining sellers being institutional or corporate.

The reasons for selling also remain broadly similar to previous years, with business reasons, relocation and investment, being the main drivers. Our research indicates that there is an increased proportion of sellers citing retirement as the predominant reason to sell.

Anecdotal evidence appears to confirm that some farmers, especially those without successors are taking the opportunity of current record values to exit the industry. Debt related sales remain responsible for fewer than one in five sales but we expect this to be higher by the close of the year as commodity prices remain under pressure in the short term.

Demand from all, existing and new, non-farmer (lifestyle) buyers appears to have overtaken farmers as the main type of farm buyer. The proportion of farmer buyers has fallen slightly due to a weakening in the positive sentiment of some farmers due to lower current commodity prices.

Farmer buyers are now at their lowest proportion of the market since 2003. However, the proportion of buyers who are buying in order to expand continues to rise and now represents half of all buyers. This indicates that many entrepreneurs are still growing their businesses, despite current commodity prices, reflecting the longer term view that they take. Medium-term (five year) forecasts for most agricultural commodities are positive in terms of demand and prices. It also reflects that many farms now produce significant non-farming income which helps spread business risk.

Farms compete with other type of assets and investments for non-farmers' money. Our research indicates that the proportion of 'new' non-farmer buyers also fell slightly, which reflects the recovery and greater economic and political certainty in other types of asset, such as residential, commercial and equities.

Farmland is seen as a safe haven during a period of recession and, now that the recovery is firmly established, buyers will consider other assets more readily. However, those non-farmers who have already invested in farmland continue to do so, and are an increasing proportion of the market, reflecting that they like the tangibility of the asset and the returns it generates, which are not all financial.

Most purchases remain funded by cash, with only 20-25% funded by borrowing. Almost 10% of purchases in the first half of 2015 were funded by rollover of capital from development and other sales, a large rise from 5% of purchases in 2014 and 2.5% in 2013.

This reflects the recovery in the economy, especially in increased land development. Before the recession, rollover funded 25-33% of deals so there is still plenty of scope for this type of purchase to again become a more influential driver in the next few years.

The majority of buyers of UK farmland are currently British (85%). Overseas buyers have not yet returned to the market in their pre-recession levels.

TABLE 1

Variation in Market Activity

Increased 2015 supply | Decreased 2015 supply

	2014 (to end of June)		2015 (to end of June)			
Regions	**Acres**	**Number of farms**	**Acres**	**Number of farms**	**Change in acres**	**Change in farm number**
East of England	12,846	48	13,735	53	7%	10%
East Midlands	5,576	28	10,262	34	84%	21%
North of England	7,999	44	13,112	54	64%	23%
West Midlands	7,923	32	4,234	13	-47%	-59%
SW England	13,135	60	10,164	58	-23%	-3%
SE England	9,594	41	13,034	48	36%	17%
England	57,073	253	64,541	260	13%	3%
Scotland	19,983	82	18,569	94	-7%	15%
Wales	4,266	19	1,923	13	-55%	-32%
GB	81,325	354	85,033	385	5%	9%

Source: Savills Research

Increased proportion of sellers citing retirement as reason to sell

OUTLOOK

The market in 2015

The market has become more finely balanced over the past 12 months with demand more price sensitive and the very high headline values are achieved less frequently. Local market knowledge, for both buyers and sellers, is therefore critical in a market where prices achieved range widely from average values.

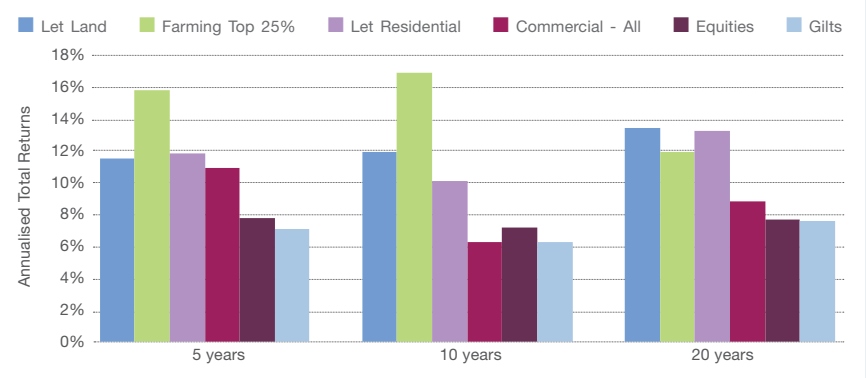
The pressures on commodity prices and therefore farm profits and cash flows has weakened farmer demand and we don't expect this to change in the short term. However, the fundamentals of land ownership still remain secure and the medium term (five year) outlook for commodity prices is relatively positive.

Farmland as an investment has performed very well during the recession. Its value is influenced by different factors than other types of property and equities and many regard it as a useful asset to diversify risk within a portfolio. UK farmland has largely outperformed all of the major UK property types as well as gilts and equities over the past 5, 10 and 20 years (see Graph 3).

Although past performance can not be relied upon to predict future performance, the factors that underlie farmland's performance have not fundamentally changed and we do not expect the total returns from land in the long-term to change significantly.

GRAPH 3

Strong Investment Performance of Farmland



Source: IPD & Savills Research

Medium term (five-year) outlook for commodity prices is relatively positive

Fundamentals to underpin long term returns from farmland

Savills Farm Agency team

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