Agricultural Land Market Survey 2011

Savills Research

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Established 25 years ago, this year Savills Rural Research is celebrating a significant milestone. Since then farmland values have increased significantly and there seems little to hinder their performance in the near future.

This edition of the Agricultural Land Market Survey reports in detail on many aspects of the 2010 farmland market for Great Britain and offers Savills outlook for values.

2010 was a year of highs and lows. The agricultural industry remained bullish against a backdrop of macro economic uncertainty. Wheat prices soared to over £185 per tonne during the second half of the year and the Coalition Government announced unprecedented austerity measures and spending cuts.

Across Great Britain average farmland values continued to rise but the strongest rates of growth were in the eastern counties of England. This rise in values was not exclusive to the UK; values around the world have continued to grow – see our latest bulletin on International Farmland Markets at **savills.co.uk/research/rural-research.aspx**

Demand for farmland continues to be strong with an increase in new applicant registrations. Our research shows a clear trend towards buying for investment purposes. In the arable sector, high commodity prices boosted income returns, and this, combined with strong capital growth enhanced the investment performance of this low risk asset.

Farmland, along with gold, is a good hedge against inflation and as Graph 1 illustrates the strength of drivers over and above productive capacity have weakened land's relationship with commodity prices in Great Britain.

Supply 2010

Savills research shows an 11% increase in the volume of publicly marketed farmland across Great Britain. 158,000 acres were publicly marketed during 2010 compared with 143,000 acres in 2009. Supply, in the historical context, remains tight.

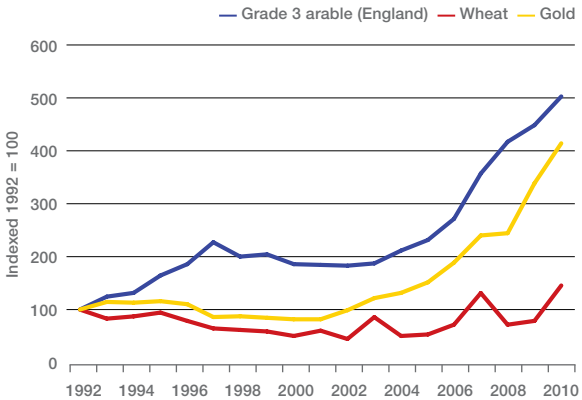
In England, the supply of farmland remained static, with 107,000 acres publicly marketed, during both 2009 and 2010.

However, in both Scotland and Wales significant increases in supply were recorded for 2010, albeit from a low base in 2009. In Scotland, 37,000 acres were publicly marketed in 2010, up 35% on the previous year. In Wales the increase was 65% in 2010 to 14,250 acres of lowland farmland, although the Llanwddyn Estate in Powys contributed to over a third of this.

Across England the supply was most limited down the eastern side. In the South East supply fell furthest at -35%, to 12,400 acres. In the East Midlands and the East of England, activity was similar to 2009. Graph 2 illustrates the variations in regional supply activity.

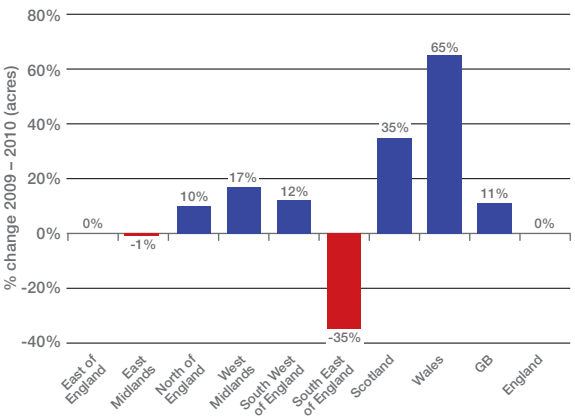
The above figures take no account of any privately marketed farms, but anecdotal evidence suggests there has been significant activity 'off market' for both large commercial farms and estates during 2010.

Graph 1
Farmland price growth outstrips wheat



Source: HGCA & Savills Research

Graph 2
Supply remains constrained with regional variation



Source: Savills Research

Values 2010

This report principally focuses on average values of farmland. However, it should be noted that the market is diverse and there can be a significant range in achieved prices and growth rates. In 2010 the land market witnessed some very high prices, which in some cases, reached well over £10,000 per acre in England and over £7,000 an acre in Scotland.

Savills Farmland Value Survey shows the average value of grade 3 arable land across Great Britain rose by 11% in 2010 to £5,250 per acre. This compares with a rise of 7.2% in 2009.

Farmland values continue to increase steadily, an ongoing trend since 2003 as illustrated in Graph 3. In England the average value of grade 3 arable land increased by 11.7% during 2010 to £5,600 per acre and in Scotland it increased by 5.8% to just over £4,000 per acre. Welsh land values followed the same pattern with average grade 3 arable land increasing by 17% to almost £4,300 per acre.

Our research shows a clear pattern of strong farmland growth down the eastern side of England, reflecting the strength of the commercial arable farmland market.

The greatest regional growth was recorded in the North of England, where the average value for grade 3 arable land increased by 23.5%. In the East of England average values for grade 3 arable land rose by 18% and in the East Midlands by 14% (see Graph 4).

As in 2009, arable land recorded the strongest growth across all regions. The average value of prime arable land in the East of England is now more than £6,600 per acre at December 2010, according to our survey.

Performance

In the UK, over the past 30 years, the investment performance of farmland has been similar to many other assets, the main exception being residential property and equities (see Graph 5). However, more recently (the past 15 years) and again illustrated in Graph 5, farmland (let and farmed in-hand) has outperformed all assets except residential property.

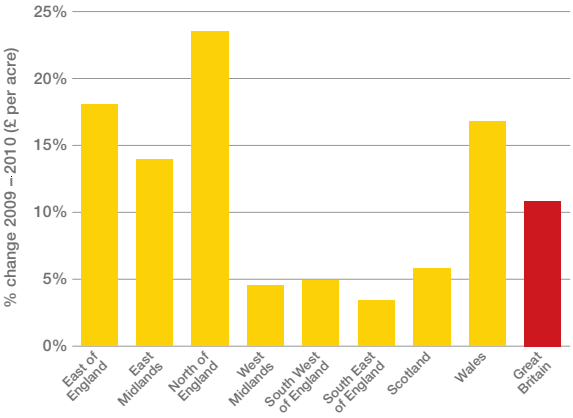
> "In 2010, the land market witnessed very high prices, which in some cases, reached well over £10,000 per acre"

Over the past three years, farming and forestry have topped the investment performance league in the UK. The stable returns from agricultural property during the past few years clearly show the recession proof nature of this asset and its value in inflationary environments.

Additionally, the returns from agricultural investments have a weak correlation with mainstream investments, meaning agricultural property performs well when other assets show poor returns. This is a good argument for including agricultural property in a mixed portfolio, to reduce risk and boost overall portfolio performance.

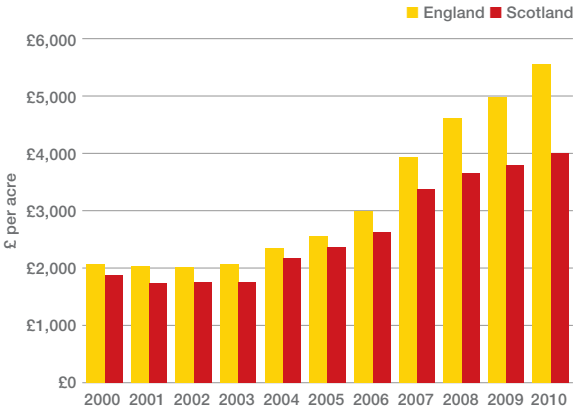
The number of new farmland applicants registering with Savills each year has been relatively stable since 2006. Last year however, new applicant registrations increased by over 45%; further evidence of the current interest in farmland as a strong performing asset. Anecdotal evidence suggests large farms were particularly in demand.

Graph 4
Regional growth – average Grade 3 arable



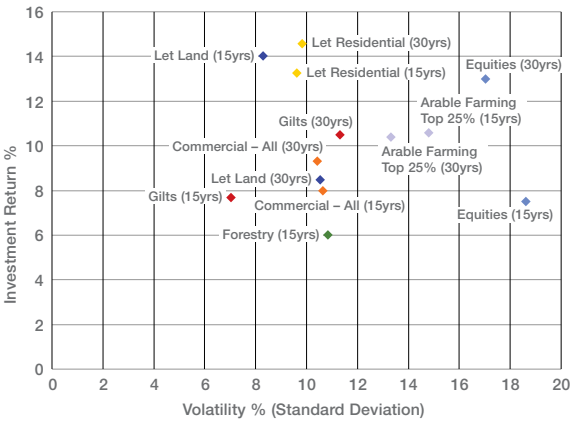
Source: Savills Research

Graph 3
The positive trend continues (Average Grade 3 arable)



Source: Savills Research

Graph 5
UK Investment Performance – Risk and Return



Source: IPD / Savills Research

Sellers

Analysis of farm transactions for 2010, where Savills were involved in either the sale or purchase, indicates that there was no change in the main types of sellers of farmland. Notably, these are farmers, non-farming landowners (including private trusts) and corporate/ institutional landowners.

Farmers continued to be reluctant sellers in 2010 and accounted for less than half of all sellers (47.5%). Our research shows that this proportion is similar to the previous two years but is significantly lower than in 2006 and 2007 when around 60% of all sellers of farmland were farmers.

In addition:

- 15% of sellers in 2010 were institutional / corporate landowners (14.8% in 2009)
- 37.5% were non-farming landowners (38.3% in 2009)

However, the primary reasons for selling have changed with a shift towards more investment linked sales. 33% of sellers cited selling farmland to invest the capital elsewhere (27% in 2009) as the reason for sale. Of those citing investment as a reason to sell, 90% were non-farmers or institutional / corporate sellers. These sellers may well have taken the opportunity to cash-in on the recent significant rises in the capital values of farmland. In some cases the funds taken out of farmland were used to boost other business interests struggling in the current economic climate.

Debt as the primary reason for selling remains low and relatively insignificant, representing just 7.5% of all sellers in 2010. Despite UK farm debt reaching a record £12 billion in December 2010 the continuation of low interest rates has kept bank service charges at a record low as a proportion of total debt. Now just 3% compared with over 10% in 1990 when total debt was just £7.8bn but interest rates were around 14% (see Graph 6).

A higher proportion of Danes were sellers last year compared with the previous three years. This suggests they were cashing in on the continued strength of the UK market to take advantage of rolling gains into falling land prices at home.

Buyers

The profile of farmland buyers has been dynamic over the past decade. Graph 7 illustrates the growth in the proportion of new 'lifestyle' buyers (those whose primary motive is not income generation) over the past ten years.

In 2001, farmers made up 64% of all buyers. By 2003, there were equal numbers (41%) of farmers and new 'lifestyle' buyers. Since then, there has been a steady decrease in the number of new 'lifestyle' buyers (down to 22% in 2010) as their activity has been dampened by the recession.

Recent analysis of farm transactions, where Savills was involved in either the sale or purchase shows that farmers represented 56% of all buyers in 2010, down from the 61% recorded in 2009 and more in line with the 53% recorded in 2008. 70% of farmers said they were buying land to expand their farming business.

In contrast, our research demonstrates increased competition in the marketplace from investors during 2010. The proportion of institutional / corporate buyers rose to 10% of all buyers in 2010 from 4% in 2009.

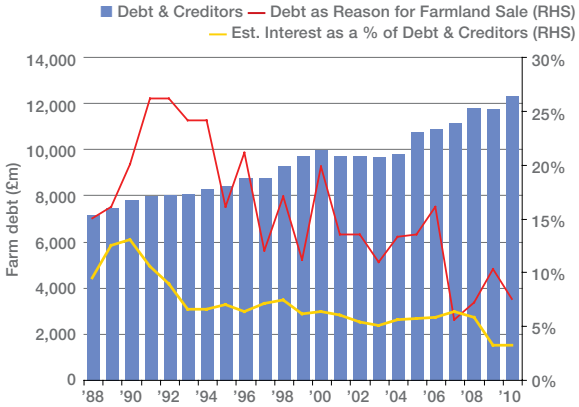
In addition, the proportion of buyers citing investment as the primary reason for buying doubled during 2010 to 31%. These buyers were either non-farmers or institutional / corporate buyers. This increased competition explains some of the highest prices achieved on record for the best farms in 2010.

The proportion of buyers purchasing to expand fell in 2010 to 35% compared with 43% in 2009, and similarly those purchasing for residential or sporting reasons accounted for only 19% of all buyers in 2010 compared with 28% in 2009.

As the primary means of purchase, the use of rollover money (from development gain and other sale proceeds) increased in 2010. It was used by almost 20% of purchasers compared with 15% in 2009. Low interest rates continued to stimulate the use of loans with 27% of purchasers using loans, similar to 30% recorded in 2009.

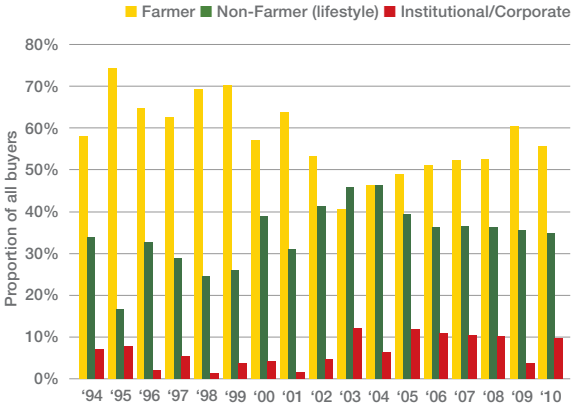
Overseas buyers remain a small proportion for the second year running accounting for just 6% of all buyers.

Graph 6
Farm debt and servicing charge diverge



Source: Bank of England, Savills Research

Graph 7
Dynamic buyer profile



Source: Savills Research

Outlook

Supply, in the historical context, remains tight and we do not expect any change in the short term. Our research shows that current demand remains strong with those motivated by investment objectives competing with farmers expanding their businesses.

Savills has revised its average farmland value forecast upwards following an improvement in sentiment for the prime country house market and factoring in what we expect to be a reasonably robust run of strong commodity prices (see Graph 8). Growth may soften in 2012 as the outcome of the latest CAP reform becomes clearer.

Prospects for this year will be interesting. Supply will remain limited and while demand is not expected to falter, buyers will remain price sensitive especially where income-generating opportunities are limited.

In addition to the main baseline forecast for the short to medium term, it is expected that growth in values will be diverse and largely related to quality. This is summarised below and illustrated in Graph 9.

■ **Lower range:** Growth is likely to be weak and to be below 5%. This scenario could play out where the market is dominated by grassland farms, which have no real residential or amenity appeal or where small blocks of land are not in prime locations. The former may reflect a reasonable proportion of the market in Scotland.

■ **Average:** Savills baseline forecast, which is believed to be a realistic base forecast for average values across Great Britain, has been revised upwards to 9.7%.

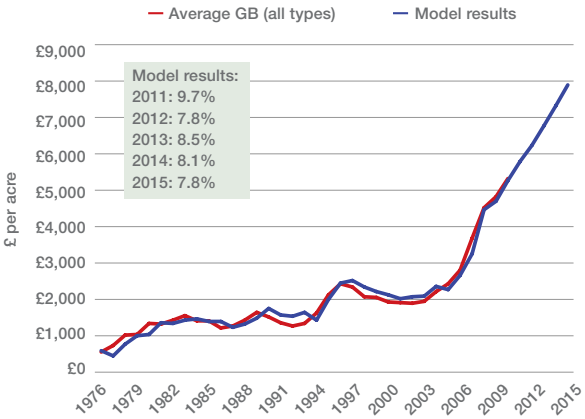
■ **Upper range:** Strong demand for good quality commercial farms, predominantly arable, may lead to value growth in the region of 15%. This likelihood strengthens if the current uplift in commodity prices remains robust. In addition, Savills expects the value of top quality estates to record growth at a similar level.

A significant increase in interest rates, although countered by inflation prospects, could potentially dampen the current run of value increases. However, most commentators believe a rise is unlikely before this summer and a return to 'normal' interest levels is likely to be some way off.

As we have noted earlier less than 30% of buyers used loans in 2010 as the primary source of funds, therefore the impact at current levels of supply would be relatively small. An additional threat to the current growth rates would be significant adverse changes to land taxation.

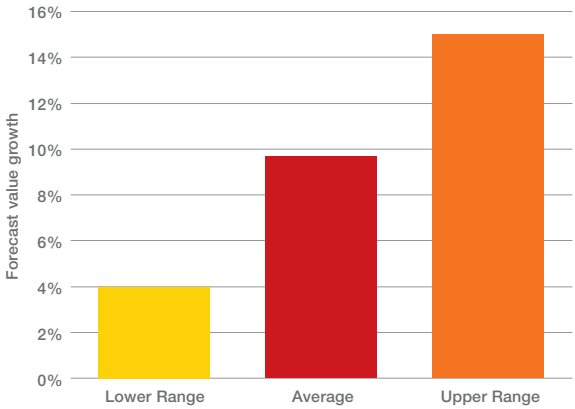
We believe a fall in values is highly unlikely given the fundamentals of growing populations, food security, increased wealth, renewable energy and land being a finite resource. ■

Graph 8
Average values – growth revisions still strong



Source: Savills Research

Graph 9
2011 Forecasts show more divergence



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 Great 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 evidence 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.

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