Spotlight on…

Farmland Value Forecasts

Savills Research launches its farmland value model.

We believe our recently launched farmland value model, which provides data for both England and Scotland, is currently the most comprehensive farmland value forecasting tool available. It is a strategic view of the prospects for farmland values in the short to medium term, and is based on the sound analysis of historical data.

The Savills farmland value model 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.

■ To give a 'modeled' 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 – see Graph 1.

The farmland value model is based on:

■ Total Income From Farming (TIFF). We have used the Defra estimates for 2009 (+25.5%) and 2010 (-8.8%) and a steady trend thereafter. Exchange rates will be an important factor.

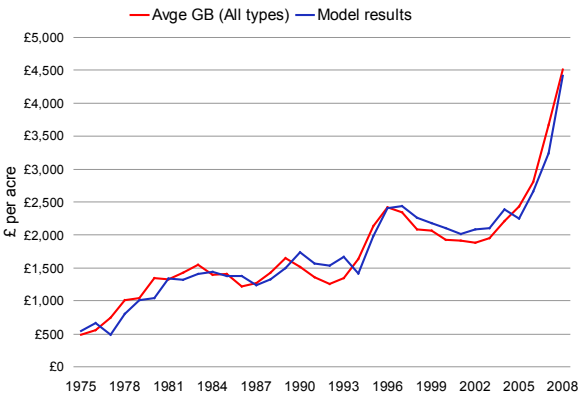
■ Wheat price, yield and subsidy defined as output. We have forecast a steadily rising wheat price in line with the trend since 2002 (£110 in 2010 to £160 in 2015), slowing growth in yields, 8.2 tonnes per hectare in 2009 moving to 8.5 tonnes per hectare in 2015 and more pressure on subsidies as we move through the next CAP reform in 2012.

■ Prime country house values – using the forecasts of Savills residential research team which predict a -1% fall in 2010 and growth of between 5% and 9% per year to 2015 and;

■ A lagging effect represented by previous year's farmland value.

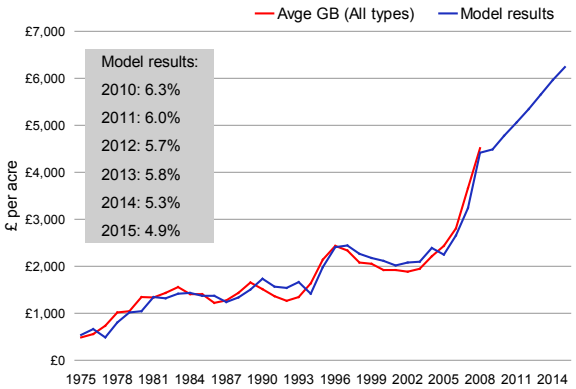
Our modeled baseline forecasts are illustrated in Graph 2.

Graph 1
The model 'fit' with historic land values



Source: Savills Research

Graph 2
Short to medium term 'baseline' forecasts



Source: Savills Research

UK farmland values are set in the context of the world fundamentals of wealth, population and renewable energy growth, which are likely to create a positive backdrop to values.

Our model predicts annual growth of around 5% to 6% until 2015. Average Grade 3 arable values in England could reach £7,000 per acre and more than £5,000 per acre in Scotland by 2015.

However, the current range in the price 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 regional 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 vs amenity and residential properties.

Supply

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

A closer examination of supply levels and historic values indicates 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 as illustrated in Graph 3.

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

In addition, there are currently funds of £7.5bn in our applicant list. At £7,500 per acre, this is equivalent to over one million acres, which equates to the area publicly marketed in Great Britain over the past six years. This creates a strong floor in the market.

We expect supply, nationally, to remain constrained over the next few years. Apart from the usual reasons for selling there is little else to motivate landowners to sell, as illustrated in Graph 4.

The strongest influence of increased supply is likely to be debt and we expect this factor to remain small. Although pressures may be stronger in some cases as mentioned above.

Our research concludes that in many areas more supply would create a more 'normal' market place and our forecasts are likely to hold true despite more land coming to the market.

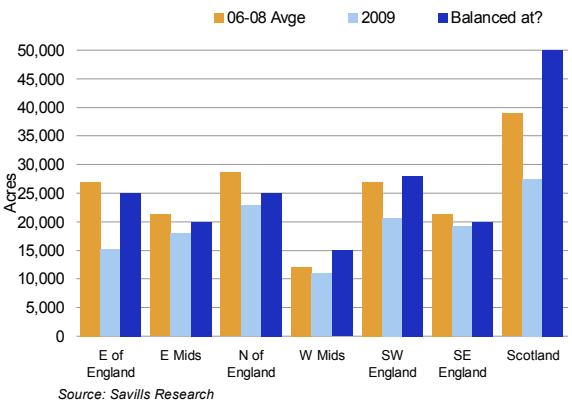
Farmland Market Comment – into 2010

National – Crispin Holborow

Historically farmland is regarded a safe haven in times of economic uncertainty; this proved to be the case during 2009. In addition, trading and owning land has tax benefits, quite apart from the windfalls that strategically located farmland can produce by way of future development. Land also has obvious lifestyle attractions and a more positive sentiment in the amenity and country house markets in the second half of 2009 gave additional support to farmland values.

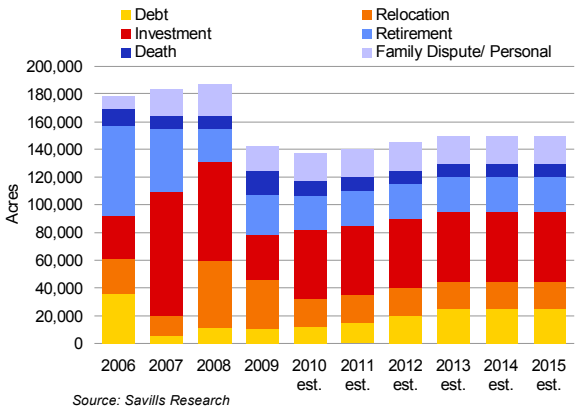
Demand remains strong, and Savills has over £7.5 billion potentially waiting to be spent on farmland in the UK. However, not all of this money will actually be invested in land as some buyers, frustrated by the inability to find what they are after will look to other investments, which are more easily accessible in the volumes required for modern day trading. As a result, we do not expect to see a sharp increase in land values this year, but believe that the fundamentals as shown in the farmland research model will hold true.

Graph 3
Supply is more balanced in some locations



Source: Savills Research

Graph 4
Supply forecast – no significant change



Source: Savills Research

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Scotland – Charles Dudgeon
Values in the Scottish market have been driven to current levels on the back of Irish and European buyers, who were active during 2007 and 2008. Although these buyers were less evident in 2009, values have been maintained by a shortage of supply (-29%) and a belief that grain and milk prices will rise by 2011. Indeed, the value of prime Scottish land increased by more than 4% in 2009 and there is still a healthy demand for arable land along the East coast.

East of England – Christopher Miles
Demand remains strong but the key problem has been the lack of supply with virtually nothing for sale on the open market. 2009 was dominated by private deals – over 60% of our transactions – as sellers shy from publicity. Optimism continues among farmers and coupled with the interest from UK and overseas investors alike, who are often seeking sanctuary from the turbulence of other assets, have pushed up values to as high as £9,000 per acre. The range in values however has widened depending on quality and location with the lower end at around £4,500 per acre. Concerns are building about potential tax increases post election, which is likely to lead to an early market this year.

North of England – Andrew Black
Once again, the market in the north of England has been characterised by the lack of supply. This ensured good demand for well-equipped commercial farms with interest generated locally, regionally and nationally. The bare land market has been more variable this year, with values achieved typically lying between £3,500 per acre and £7,000 per acre. Cash purchasers are supporting the higher end, while those needing to raise finance have to look more carefully at servicing the loan based on current levels of profitability. Values have followed national trends and prospects for 2010 are likely to prove similar to this year.

Central/West England – Richard Binning
The market over the last year has been an interesting mix of the factors, which underpin our farmland value model. In line with our forecast, we saw values climb throughout the year in spite of a slightly increased supply (4%) of land to the market in the central region. The market is certainly far from saturated and we have many frustrated buyers still actively searching.

Southern England – David Cross
In 2009, supply once again limited the farmland market especially that for the larger, more commercial units. We see little reason for this to change in the future especially if values are likely to continue growing steadily. However, there are vendors, many of whom bought during the last decade, who have felt the cold chill of recession in their mainstream businesses and decided to take advantage of the substantial growth of farmland values during the last half of this decade and sold during 2009. We expect to see more of this during 2010, but the traditional owners with emotional ties to the farm are unlikely to be sellers.

Demand will continue to be strong especially for the commercial, non-residential farm. ■

Our annual Agricultural Land Market Survey will be available in early February. This will provide a detailed analysis of the past year, 2010 and beyond. Please contact Ian Bailey (ibailey@savills.com) to be added to the mailing list.

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