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Savills World Research
UK Rural

Market Survey
UK Agricultural Land

2013

Market Survey
UK Agricultural Land

Farmland values across Great Britain have risen in 2012 for all land types, and demand remains strong for good quality arable land

2012 will be remembered, not only for the Diamond Jubilee celebrations and the Olympics, but also the extreme weather conditions. It was an extraordinarily challenging year for agriculture. It started with a drought, which led to a disappointing harvest and ended with a washout leaving large areas of the country unplanted, and planted crops looking very poor at the year end.

The yields and quality of crops, including forage, were significantly lower than average and this combined with higher costs, including sprays, fuel and feed, has put pressure on profits and cash flows into 2013. This may lead to an increase in the number of distressed sales.

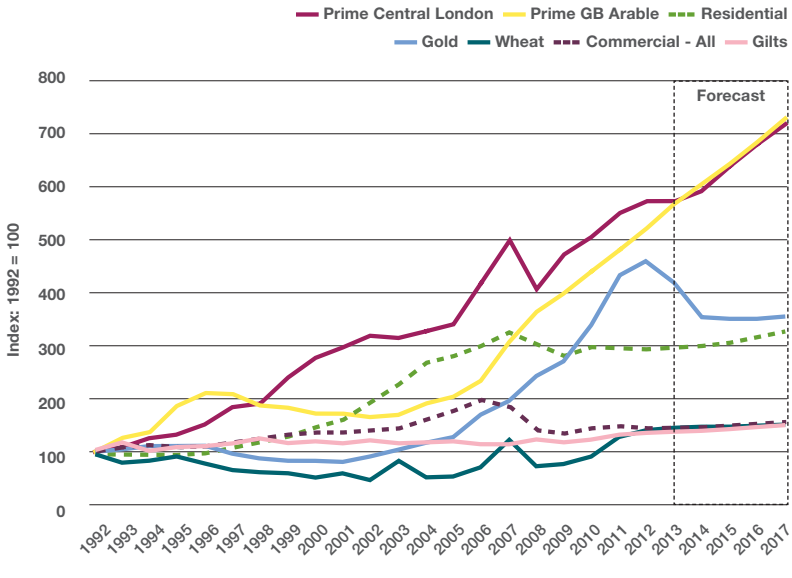
Despite this, average farmland values continued to strengthen throughout the year. This was in stark contrast to most other property and alternative assets (see Graph 1 below), the exceptions being prime central London residential property and gold.

We believe average farmland values will continue to grow in the short to medium-term, driven by competition for top quality farmland. However, we expect weaker demand and slower growth in values for smaller farms with a significant residential weighting, at least until the mainstream residential market revives.

We forecast growth of 40% over the next five years for average farmland values across Great Britain – a trend that is likely to mirror the prime central London residential market (see Graph 1). Both markets are regarded as safe havens for cash. More detail on our forecasts can be found on pages 7–9.

GRAPH 1

Prime Arable Farmland Outperforms Other Assets



Graph source: Savills Research, Oxford Economics, IPD, HGCA, Kitco, Nationwide

EXECUTIVE SUMMARY

Key findings in this issue

- Our 32nd Agricultural Land Market Survey takes a closer look at the performance of the farmland market in 2012 and considers its outlook and future drivers for 2013 and beyond.
- The demand for UK farmland continues and Savills has well over £6 billion of buyers' funds registered looking to invest in land and farms. However, this demand is focused towards the good commercial arable farms, where investment returns and tax benefits are the key drivers.
- According to the Savills Farmland Value Survey, the average value of prime arable land across Great Britain rose by 10.7% to £7,594 an acre during 2012.
- In contrast, the supply of farmland has again contracted. 134,000 acres were publicly marketed across Great Britain during 2012 compared to 155,000 acres in 2011; a reduction of -14%.
- Farmers continue to be the highest proportion of traders, representing over 50% of buyers and 47% of sellers in 2012, with expansion cited as the main driver for those buying.
- Rural assets continue to outperform alternative assets despite economic uncertainty remaining a real issue. However, it is this uncertainty that has a positive effect on values and enhances farmland's reputation as a safe haven from economic storms.
- We forecast growth of 40% in the next five years for average farmland values across Great Britain – a trend that is likely to mirror the prime central London residential market. Both markets are regarded as safe havens for cash.

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Agricultural Land
Values and Supply 2012

According to the Savills Farmland Value Survey, the average value of prime arable land across Great Britain rose by 10.7% to £7,594 an acre during 2012. This follows a 11.1% rise in 2011.

The average value for all types of farmland across Great Britain increased by 12.3% to £6,058 per acre during 2012, which compares to 8.2% in the previous year.

In contrast, the supply of farmland has again contracted, although overall, the trend line is generally static since 2003. 134,000 acres were publicly marketed across Great Britain during 2012 compared to 155,000 acres in 2011 – a reduction of -14%.

This report focuses on publicly marketed farmland and takes no account of privately marketed farms, but anecdotal evidence suggests this market remains strong.

England

In England, our Farmland Value Survey shows the average value of prime arable land rose by 10.8% to £7,609 per acre. This follows an increase of 11% in 2011.

As we predicted in 2011, there has been a widening of the price gap between the best and the poorest quality land.

The highest prices paid for farmland were reported in the eastern side of the country, where good quality, large commercial arable farms achieved well above the average.

In contrast, there has been a weaker demand for smaller farms, where the residential element accounts for a large proportion of the value.

Further analysis of the English regions shows that the highest rates of growth occurred in the North of England. The average value of prime arable land increased by 13.5% to £7,636 per acre, and much of this growth happened during the second half of 2012.

In 2012, 88,700 acres were advertised across England. Historically, this is the lowest amount of farmland publicly marketed in England since 2003.

Map 1 illustrates how supply has been inconsistent across the English counties with a larger increase in activity in some counties such as East Sussex (410%) and Hertfordshire (195%) where supply is traditionally low.

In contrast, significantly less farmland was advertised in 2012 than in 2011 in other areas which included Lincolnshire (-65%) and South Yorkshire (-61%).

Scotland

Average prime arable land in Scotland rose in value by 9.9% in 2012. This follows a 12.8% rise in 2011. Much of this growth occurred in the second half of the year with the best arable land now achieving around £7,500 per acre and in cases, more.

Our research reveals the volume of publicly marketed farmland increased by 25% across Scotland, amounting to a total of 38,800 acres during 2012. In fact, our analysis illustrated supply in Scotland was higher in 2012 than it has been since 2008 when 39,000 acres were publicly marketed.

Map 1 indicates that all but three counties in Scotland witnessed an increase in the supply of farmland during 2012.

Central Scotland saw a 520% increase in the volume of farmland marketed. Those counties witnessing a reduction in the supply of farmland included Fife (-24%) and Strathclyde (-18%).

Wales

The average value of prime arable land in Wales rose by 10.2% in 2012 to £7,000 per acre, and all land types rose by 9.6% to £5,309 an acre.

The supply of publicly marketed farmland in Wales is historically low, with the volume of advertised farmland during 2012 at its lowest since 2004.

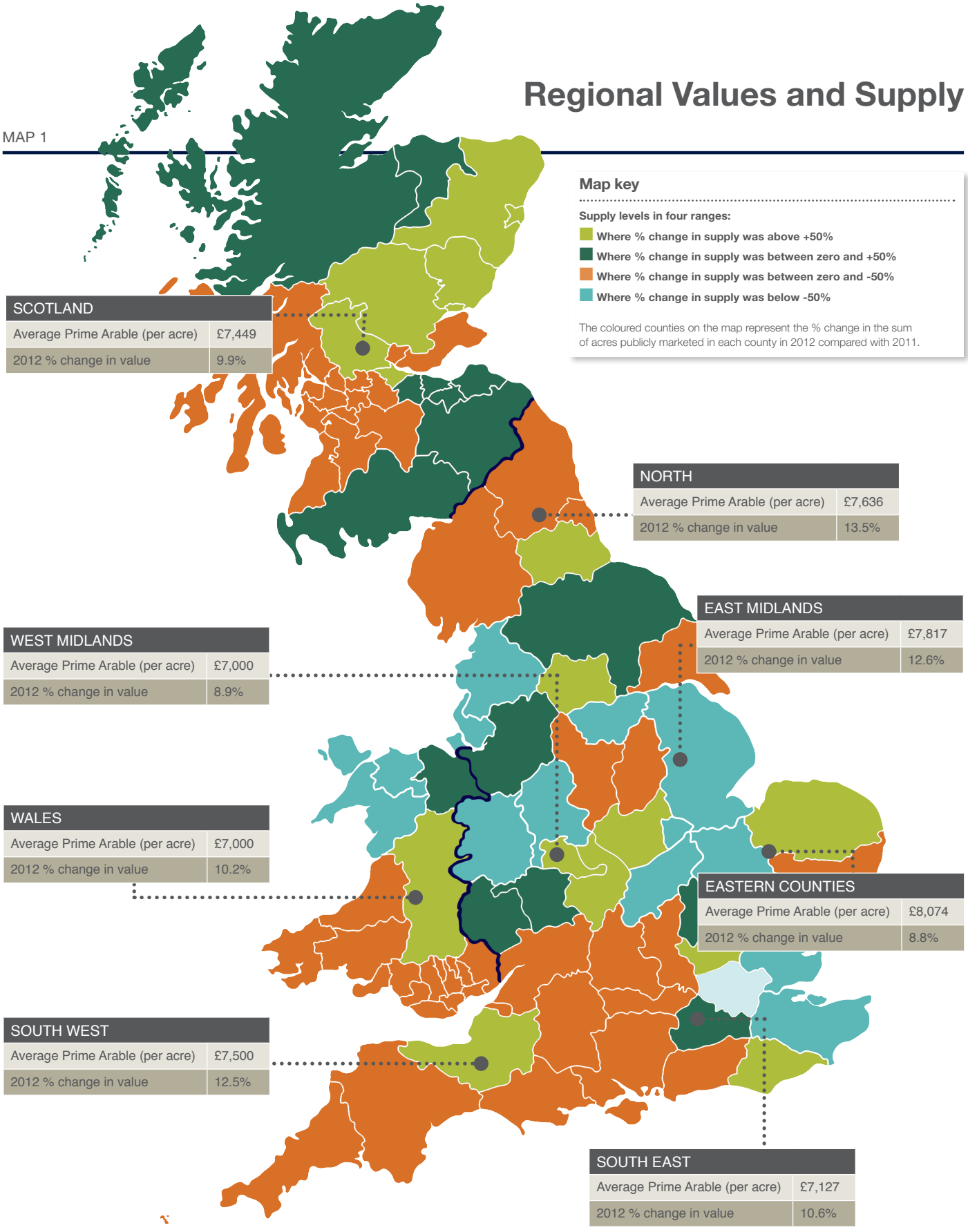
6,460 acres of farmland were publicly marketed in Wales during 2012. This compares to 7,193 in 2011 – a reduction of 10%.

Map 1 shows that market activity in Wales is unevenly distributed. Powys and the north east of Wales saw an increase in the amount of land advertised. In contrast North West Wales, South Wales and South West Wales recorded a fall in activity.

"As we predicted in 2011, there has been a widening of the price gap between the best and the poorest quality land" Savills Research

Regional Values and Supply

MAP 1



Map source: Savills Research

Agricultural Land
Buyers and Sellers

The demand for UK farmland continues and Savills has well over £6 billion of buyers' funds registered looking to invest in land and farms. However, as previously noted, this demand is focused towards the good commercial arable farms, where investment returns and tax benefits are the key drivers.

According to our analysis of farm transactions, where Savills acted for the buyer or seller, farmers continue to be the highest proportion of traders, representing over 50% of buyers and 46% of sellers in 2012, with expansion cited as the main driver for buying.

Non-farming 'lifestyle' buyers continue to be a presence in the market, in 2012 the majority were existing landowners with the proportion of new 'lifestyle' buyers down at 19%; the lowest level since 1998 and compared with a peak of 42% in 2004.

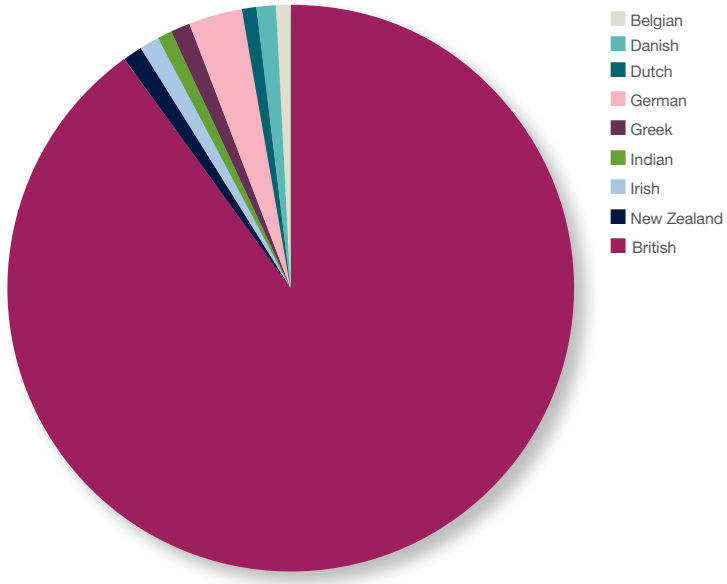
Overseas buyers

Overseas buyers, who have dwindled in numbers during the past few years, became more active and were from a diverse range of countries as shown in Graph 2. On the selling side the Danes represented almost 6% of sellers; similar to 2011.

The motives behind purchases and sales are shown in Table 1. Our research suggests that more sellers are moving out of farming for personal reasons. The numbers were significant in 2012, whereas relocation represented a much smaller proportion of sellers. Buying for investment and for residential or sporting reasons increased in 2012 compared with 2011.

GRAPH 2

Buyer nationality



Graph source: Savills Research

Cash is still king

Our research shows that, as the predominant means of purchase, 'cash is still king', with cash from all sources, including rollover funds being the principle source of funds in just over 70% of all transactions.

Rollover money is still the main funding source in almost 15% of all transactions, driving purchases for Inheritance Tax reasons.

Debt or loans are a significant feature in around 30% of transactions, a proportion which is relatively unchanged since 2006. It is surprising perhaps that this proportion is not higher taking into account the availability of cheap money for secure purchases, such as land.

TABLE 1

Principal motives for buying and selling farmland (% of all transactions)

Buyers	2012	change on 2011
Relocation	4	↔
Expansion	44	↓
Investment	19	↑
New Entrant	1	↓
Sitting Tenant	4	↑
Residential/Sporting	26	↑
Other (incl. conservation)	4	↑

Sellers	2012	change on 2011
Debt	14	↔
Relocation	15	↓
Investment Elsewhere	40	↔
Death or Divorce/Personal	19	↑
Retirement	13	↑

Table source: Savills Research

Agricultural Land
Forecasts and Outlook

Our Farmland Value Model, based on historic data going back to 1975, shows further growth in land values during 2012, a trend we believe will continue to be driven by competition for top quality farms. However, we expect weaker demand and a slower rate of growth for smaller farms with a significant residential weighting, at least until the mainstream residential market revives.

We forecast growth of 40% in the next five years for average farmland values across Great Britain – a trend that is likely to mirror the prime central London residential market (see Graph 1). Both markets are regarded safe havens for cash.

However, as noted above, the market is diverse and we forecast three scenarios as noted below and illustrated in Graph 3.

Base: This is our average forecast, which for 2013, factors in current wheat price and thereafter a continuation of wheat price in line with the rising annual average price trend of the past 10 years. A reduced wheat yield in 2012 (7.5 per ha) due to adverse weather is included. Lower subsidies are unlikely to kick in until 2014/15. It includes a steady level of overall farm profitability, ironing out any differences between sectors. Prime residential forecasts are factored in and we expect farmland supply to remain similar to the past few years.

Strong: This scenario illustrates the potential growth for good commercial arable and the best dairy farms. It enhances profitability to reflect top performers in the arable sector who are likely to compete with investors for a limited supply of suitable farms.

Weak: This scenario illustrates potential weakness in the market for livestock farms, which often have a significant residential component tied up in the total value. It factors in pressure on profitability, resulting in more 'debt related' supply, upsetting the supply/demand balance for these farms.

We anticipate significant recovery will be linked to the residential markets and more certain economic times, which is unlikely in the short-term.

Residential forecasts from Savills Residential Research are shown in Table 3 and in Graph 1.

TABLE 2

Farmland Forecasts

Farmland Forecasts	Weak	Base	Strong
2013	4.2%	8.8%	14.6%
2014	4.4%	6.7%	8.7%
2015	3.9%	6.4%	9.5%
2016	4.5%	6.6%	9.9%
2017	4.5%	6.4%	10.0%
5 yr growth	24%	40%	65%

Table source: Savills Research

TABLE 3

Residential Property Forecasts

Type	5 years to end 2017
Prime London	23.8%
Prime Regional	15.3%
Mainstream Residential	11.5%

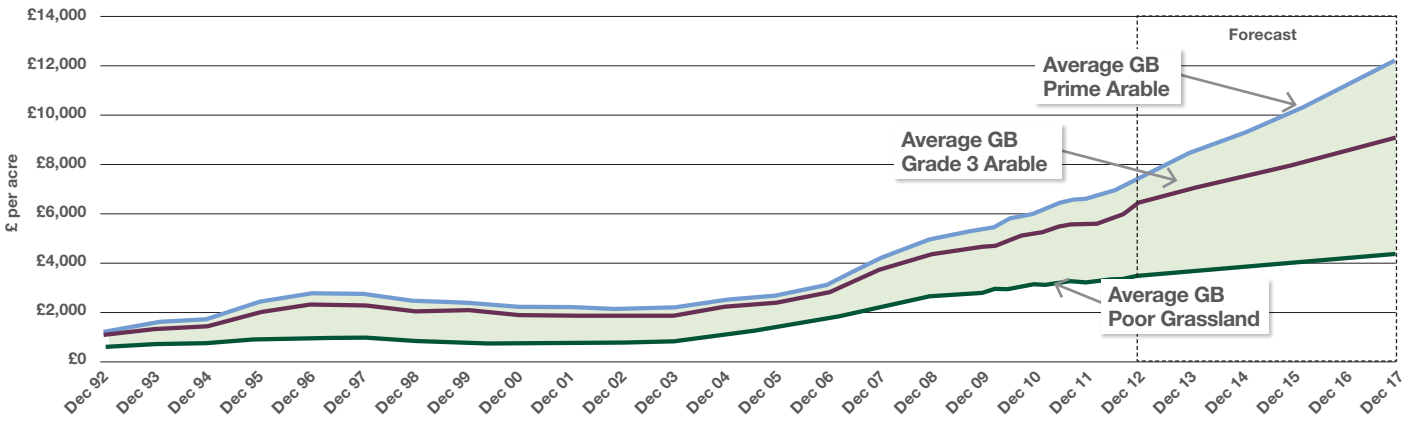
Table source: Savills Research

Growth in the prime regional and mainstream markets, which are more aligned with the residential/amenity farms market, is forecast for the latter part of the next five years.

The following pages discuss in more detail the potential up and downsides of the market drivers.

GRAPH 3

Diversity of market increases Best farmland sees strongest growth



Graph source: Savills Research

Key Drivers

Rural assets continue to outperform alternative assets despite economic uncertainty remaining a real issue, and the eurozone question remains far from answered. However, it is this uncertainty that has a positive effect on values and enhances farmland's reputation as a safe haven from economic storms. As Graph 1 illustrates, apart from a significant correction in the credit crunch, the prime central London market correlates closely with farmland.

Both markets have a 'safe haven' characteristic and strong investment performance plays a part in both assets, although farmland's tax benefits add an additional appeal factor.

This 'safe haven' factor and the fundamental demand on a finite amount of land for food and fuel to sustain an increasing and wealthier population competing with non-farming activities are providing underlying support to global farmland values and are likely to continue doing so.

Supply

The supply of farms coming to the market will be crucial. Graph 4 shows a declining trend line since 1998 for the amount of farmland publicly marketed across Great Britain, although this has leveled off during the past 10 years.

As noted above, we do not expect any significant change in the overall levels of supply, which will help support average growth in farmland values. However, there may be debt pressures in the livestock sectors due to rising costs, which may increase supply in a market, where demand is relatively weak.

It is unlikely interest rates in isolation will have a significant effect in the short-term, as the consensus of opinion is that any base rate rises will be limited to below 2% in the next five years. Any rises may be a contributory factor if combined with other business pressures.

In contrast, healthy commodity prices will limit the supply of good quality commercial farms.

Interestingly, there has been no significant change in the mix of farm types publicly marketed during the past five years. Arable and mixed (mainly arable/livestock) represent around 60% of all activity both by area and number of farms (see Table 4).

Faldonside Estate, Melrose, Roxburghshire
Agricultural and residential estate, 921 acres
Offers over £3.2 million
Sold October 2012 in lots

TABLE 4

Farm Types Publicly Marketed

Type	By area	By farm numbers
Arable	30%	26%
Dairy	4%	4%
Mixed	32%	27%
Stock	21%	31%

Figures in table are past five year average (2008 to 2012)

GRAPH 4

Supply of farms Absolute and trend

Graph source: Savills Research

Farming Profitability

2012 was a very difficult year for agriculture and its effect will be felt for some time, although good commodity prices have helped alleviate some pressure in the arable sector. The livestock sector has not fared so well as the high commodity prices impact directly on feed costs. The implications of a very difficult 2012 harvest and autumn are:

- lower yields and quality – forward selling contracts unfulfilled
- higher costs
  - sprays (fungicides)
  - fuel/energy from slow harvesting, extra spray passes and crop drying
  - feed
- tax bill in 2013 from previous good years
- more spring cropping
- forage quantity and quality down

These factors will potentially result in a difficult cash flow situation in 2013 leading to increased debts, which may increase supply, adding pressure to the rate farmland values increase. This may be more pronounced in the livestock sectors.

However, for good quality commercial farms we expect demand to remain strong. We anticipate that there will be little change in interest rates in the short-term providing money, if required, at competitive rates for farmers looking to expand and investors.

In fact, our research shows that cash is the main source of funds for farm buyers, and borrowed money is only a significant feature in around a quarter of transactions, this is unchanged since 2006.

> "As already noted, 2012 was a very difficult year for agriculture and its effect will be felt for some time, although good commodity prices have helped alleviate some pressure in the arable sector" Savills Research

Farming Outlook

- Defra expects farm incomes for 2012/13 to fall slightly from the previous year in the arable sector due to higher input costs combining with lower yields and poor quality crops.

This is despite wheat prices reaching record levels, and although they might ease back by £20 to £30 per tonne over the next year, they will still be high relative to the average of the past few years.

- The dairy outlook, especially for large herds, is brighter. The latest EU Commission Report (11 Dec 2012) predicts favourable medium and long-term prospects for the sector, in line with population growth.

In the UK, September 2012 was the first time since October 2011 that the milk auction price rose above the average farm-gate price.

The downside is costs and concentrate price rises, which tend to lag wheat prices. Cheaper alternatives may be available, but given the rise in other costs ,margins are likely to be under pressure.

- Beef and sheep farmers have both suffered increased costs, but positive price growth has only been sustained for beef stock, with sheep prices falling below 2011 levels. This may result in an overall squeeze in incomes for grazing livestock farms.

Tufton Warren, Hampshire
Productive arable land, 656 acres
Guide price £5 million
Sold September 2012

Investment/Ownership

As the capital value of farmland increases, income yields come under pressure. Historically, income yields from farming have been around 2%, but when commodity prices peaked, income yields on capital invested reached 4% to 5%.

Income return is only part of the investment performance equation. It is strong capital growth and therefore total return that has pushed farmland's investment performance above alternative assets over the past 10 to 15 years. As with all investments quality, location and timing of purchase are important and can make a huge difference to overall performance, although this will be a factor driving land acquisition and ownership, it is by no means the only factor. The drivers for land ownership are diverse and often it is not easy to separate them, but they include:

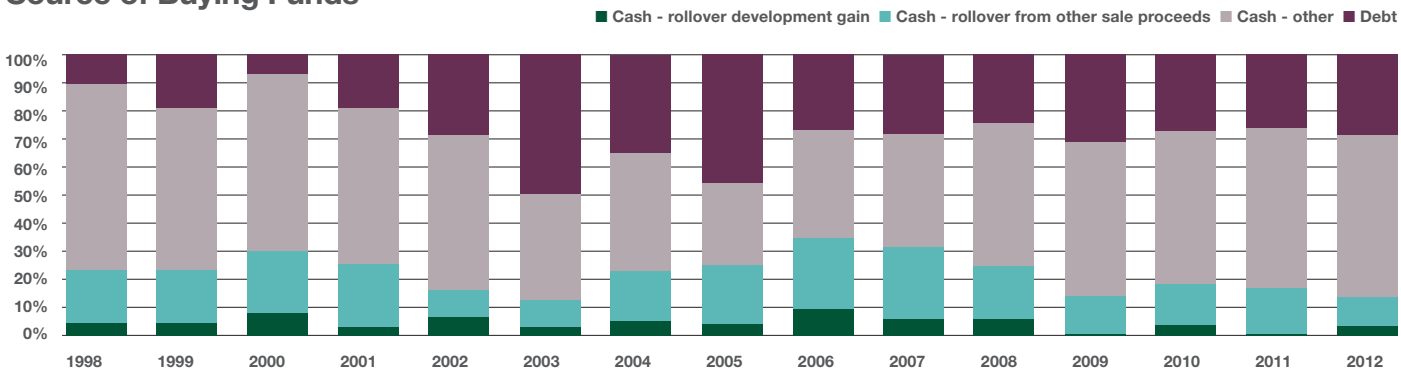
- **Lifestyle** Ownership provides somewhere to live and fulfils an aspiration; 'to own a piece of the countryside'.
- **Taxation advantages**
- **Income** From farming and diversified enterprises.
- **Development potential** Especially where land borders settlements.
- **Capital availability** Assets, such as minerals, residential properties, off-lying land, can be used to release capital.

These demand factors, combined with the global fundamentals and limited supply, will ensure the outlook for farmland values has more upside than downside, and a significant correction in values is very unlikely.

We are noticing that some landowners are considering divesting from land, following the unprecedented growth in values over the last decade. This is in order to take advantage of other asset classes with good income yields and scope for improved capital growth in the medium-term.

GRAPH 5

Source of Buying Funds



Graph source: Savills Research

Rural Property and Business Research Services

Savills has 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:

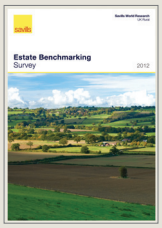
- In-depth analysis of UK and international land markets
- Rural estate benchmarking and Balfour Matrix
- Investment strategy and advice
- Analysis of the implications of changes to agriculture and the rural economy
- Identification of opportunities and threats from climate change and carbon mitigation
- Forecasting

Farmland Values Survey Revisions

- 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 nine 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.

- In line with Savills policy of regularly reviewing property indices we reviewed our Farmland Value Survey in 2012. The survey is a general indicator of market conditions at the time of the valuation, 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.



Research publications

Our latest reports

- **Estate Benchmarking Survey 2012**
- **International Farmland Focus 2012**
- **Market in Minutes | Q3 2012 Farmland Market**
- **Residential Property Focus Q4 2012**

For more information, visit savills.co.uk/research

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Savills plc
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