MARKET IN MINUTES
Savills Research

GB Farmland

savills

Supply low, values resilient amidst macro uncertainty

Record low supply in 2019 looks almost certainly to be beaten in 2020, as the combination of Brexit, agricultural policy reform and the Covid-19 pandemic weigh on the market. Yet despite this uncertainty, farmland values have remained strong, highlighting the underlying confidence in rural investments and the ongoing resilience of the sector.

Seasonality of publicly marketed farmland supply Great Britain

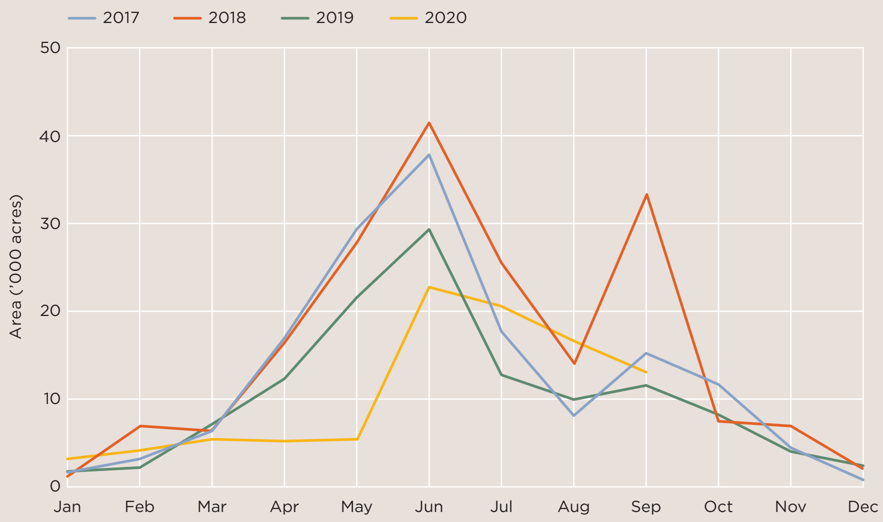


figure 1 **Source** Savills Research

95,160
acres bought to public market for the year to 30 September

£8,690
per acre Savills prime arable indicator price

SUPPLY

Farmland supply remains at historic lows and according to our database that tracks sales over 50 acres, 95,160 acres were brought to the public market as at 30 September. Over half of this activity occurred between July and October and followed the momentum seen in June as the market emerged from lockdown.

To put it in context, supply is 35% down on Great Britain's five year average with Scotland (58% down) and the South East of England (45% down) showing the greatest differential among the regions. This year is on track to be the second consecutive year of record low farmland supply, with new launches needing to add more than 30% to the current total to exceed the 2019 record.

Advertised farmland rental opportunities also remain lower than average with Savills figures suggesting publicly marketed supply is 28% below the four year average at just 14,700 acres for the year to date.

Our agents note that while publicly marketed supply does remain at levels well below longer term averages, privately advertised and off-market sales have been an alternative avenue to sale for some vendors. Anecdotal evidence from our agents suggests in some sectors private market activity is over half of that in the public market, up from the historical long term average of closer to a third of activity.

Publicly marketed farmland supply to the end of September

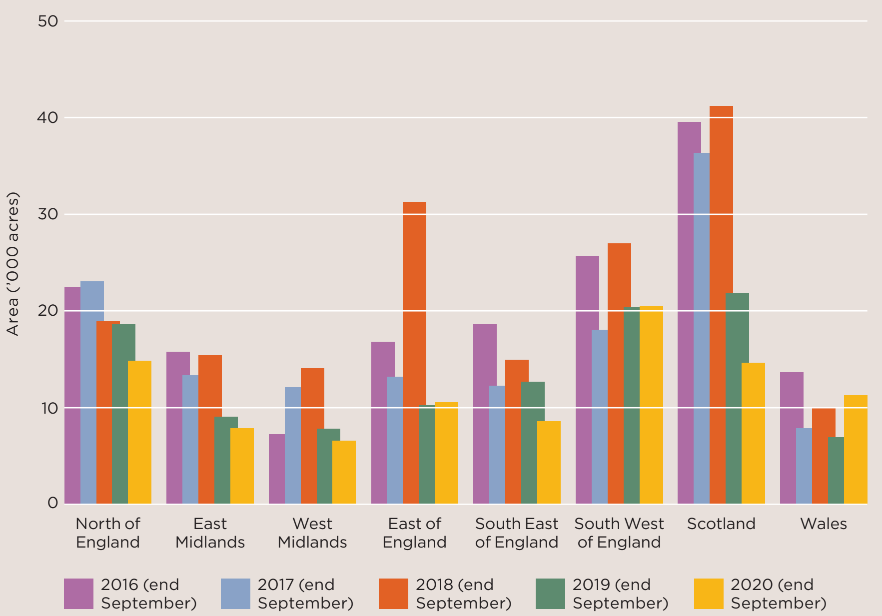


figure 2 **Source** Savills Research

VALUES

The Savills Farmland Values Survey continues to show that values are resilient with minimal changes to the end of September 2020. Great Britain's average "All types" farmland indicator remains unchanged at £6,690 per acre with prime arable down 0.1% to £8,690 per acre. Grade 3 arable was up 0.2% to £7,323 per acre, while Grade 3 pasture land was unchanged at £5,384 per acre.

Farmland values have been relatively static over the past 18 to 24 months with lower transaction volumes providing less market evidence and volatility in pricing. In reality, values achieved remain highly localised, driven by location, asset quality and soil type. →

"Over half of this (market) activity occurred between July and October and followed the momentum seen in June as the market emerged from lockdown"

MARKET SENTIMENT

During the April/May lockdown period, we commented that although transaction numbers were likely to be down, there was cautious optimism that the market would remain steady throughout much of the year, until the detailed outcomes of the Brexit trade negotiations and the Agriculture Bill's passage through parliament were known.

Fast forward six months and it would be fair to say the market has exceeded expectations in light of the broader macro factors still playing out. Country residential and amenity farmland continues to show a remarkable uptick in interest as many urban-based buyers seek more green space out of the major centres. Rural estates with notable residential components are also attracting interest at the larger end of the market.

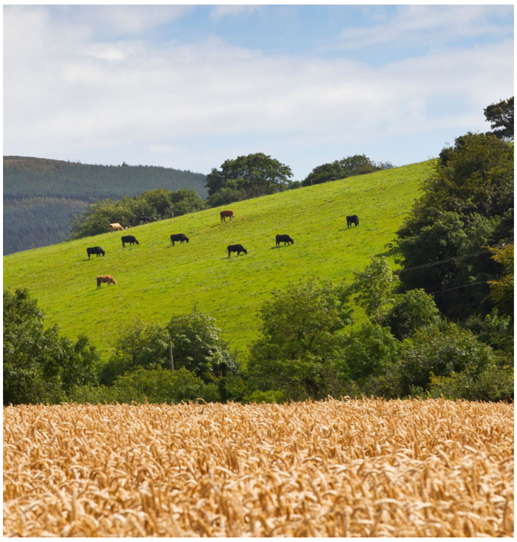
Enormous demand for greenfield land with forestry planting potential and servicing infrastructure shows natural capital motives are beginning to gain traction in the market. Quite the opposite to many commercial farmers who remain cautious, waiting for clarity in the future business environment before making major investment decisions.

Looking ahead, trade and policy reform are expected to develop in detail before the year end. The sector is set for radical change, however we expect the demand fundamentals to remain strong and the market steady with such low supply.

COMPARABLE PERFORMANCE

Farmland has long been considered a successful diversifier and stable wealth preservation vehicle for investors. The pandemic-induced recession or "pancession" as it is referred to, is no better test of this, as investments of all types are challenged around the world.

Volatile stock markets and the recent inflation of gold prices highlight the current uncertainty across investment markets, as the financial ramifications of the



pandemic continue to emerge. However, farmland, both here and globally, has shown resilience throughout this period, with business interruption limited and stability in capital values. Furthermore, times of economic uncertainty have proven fruitful for farmland investors as our analysis shows in the seven years following the global financial crisis, farmland has outperformed UK equities, gold and bonds.

As investors revisit portfolio allocation over the coming months and years, the appeal of uncorrelated and inflation-hedged alternative assets such as farmland may be bought into focus. Momentum behind a "green recovery" is likely to complement this, as society and governments recognise the importance of the land-based sector in mitigating the effects of climate change. Incoming climate-related business disclosure will only intensify this.

Comparative returns index 1992 = 100

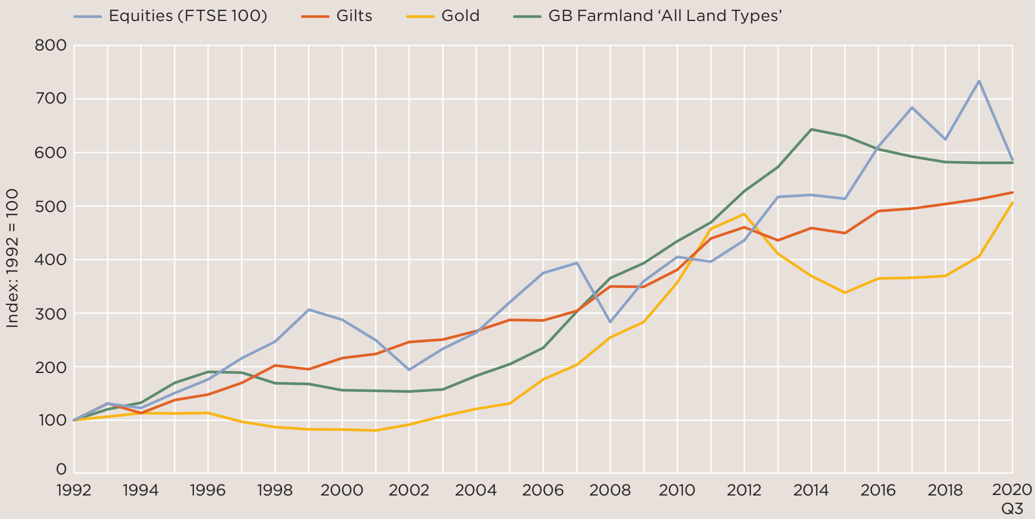


figure 3

Source Savills Research, FTSE Russell, Kitco

> **"Farmland, both here and globally, has shown resilience throughout this period, with business interruption limited and stability in capital values"**

Savills team

Please contact us for further information

Angus Locke
Rural Research
+44 (0) 7811 710 614
angus.locke@savills.com

Alex Lawson
National
+44 (0) 7967 555 502
alawson@savills.com

Charles Dudgeon
Scotland
+44 (0) 7967 555 491
cdudgeon@savills.com

Daniel Rees
Wales
+44 (0) 7968 550 419
drees@savills.com