

Market in minutes

Q3 Farmland market



Introduction

Average land values continued to nudge upwards during the third quarter of 2011, albeit at a slower rate than in the previous two quarters.

The supply of farmland remains constrained with only the eastern

and southern regions of England recording growth in the volume of publicly marketed land.

Farmland continues to be in demand with the number of potential buyers registered with Savills at a similar level to the past few years.

.....
“Farmland is still regarded as a safe haven for investment particularly in the context of other asset classes”
.....

➔ Farmland is still regarded a safe haven for investment particularly in the context of other asset classes, despite economic uncertainty, the volatility of farm input and output prices and the current reforms of CAP.

Values

According to our Farmland Value Survey, the average value of grade 3 arable land across Great Britain rose by 1.3% to £5,600 per acre during the third quarter of 2011 recording total growth of 6.6% to the end of September this year.

In England, average grade 3 arable land rose by 1.1% during the third quarter of 2011 to almost £6,000 per acre giving a total rise of 7.4% in the first three quarters of 2011. The more muted value growth was generally consistent across the regions.

Average land values in Scotland increased during the third quarter of 2011 for the first time since the same period last year. Average grade 3 arable land rose by 2.2% to £4,100 per acre and average prime arable values were up 4% to almost £5,800 per acre. The majority of buyers are farmers motivated by improved commodity prices.

In Wales average grade 3 arable land values remained unchanged during the past three months at £4,430 per acre compared with a 2.3% rise during the same period in 2010.

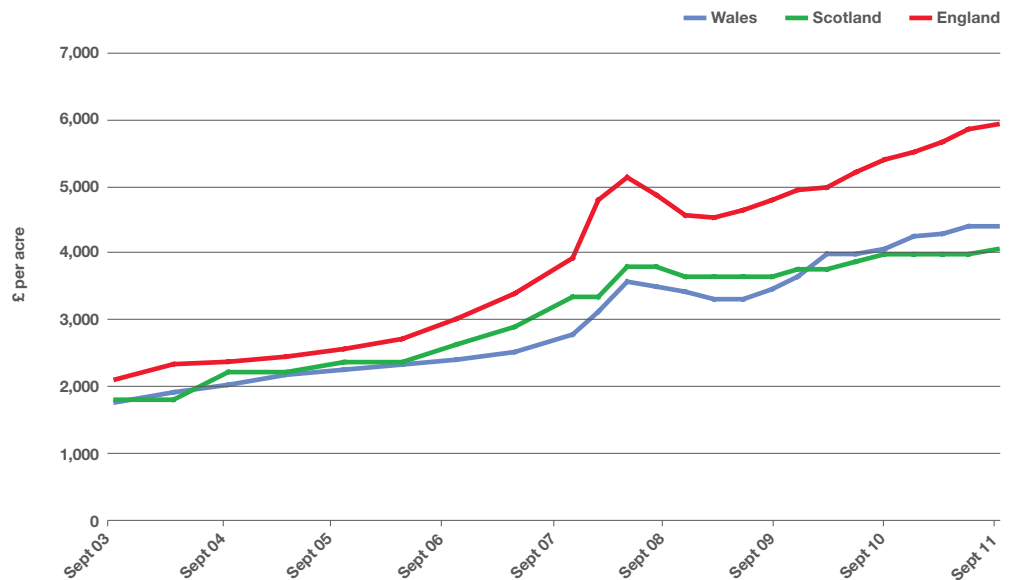
This report focuses principally on average values of farmland but it should be noted that prices are sensitive to land type, quality and location. The range of prices paid continues to be diverse and in some cases have been well above the averages quoted in this bulletin.

Supply

Savills research shows the volume of publicly marketed farmland (145,000

GRAPH 1

Value growth positive, albeit at a slower pace



Graph source: Savills Research

acres) across Great Britain in 2011 increased marginally (1%) during the first three quarters of 2011, compared to the first three quarters of last year.

This modest rise in supply is entirely due to an increase in the volume of land marketed in the East, the East Midlands and the South East of England only (see Graph 2).

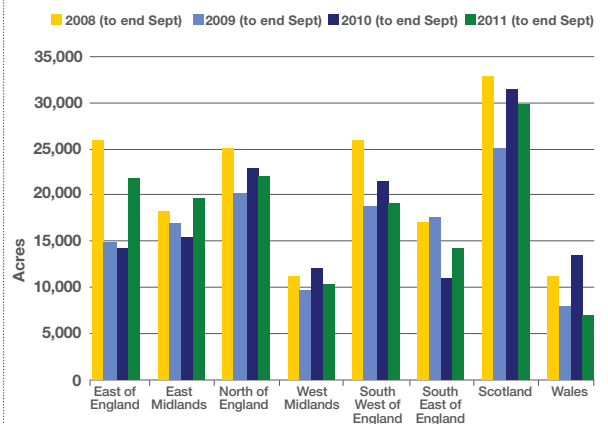
Market activity was down in Scotland, Wales and all other English regions. Interestingly, the distribution of marketed farmland appears to be almost the opposite of last year (see Graph 3).

In the first three quarters of this year 107,500 acres were publicly marketed across England with 52% of this farmland located in the Eastern regions.

Supply in Scotland fell by 5% to 30,000 acres in the first three quarters of 2011. Our research shows supply

GRAPH 2

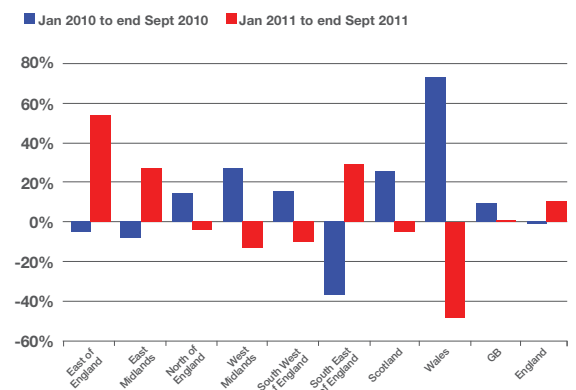
Regional variation in supply



Graph source: Savills Research

GRAPH 3

Ups and downs of market activity



Graph source: Savills Research

“In the first three quarters of this year 107,500 acres were publicly marketed across England with 52% of this farmland located in the Eastern regions.”

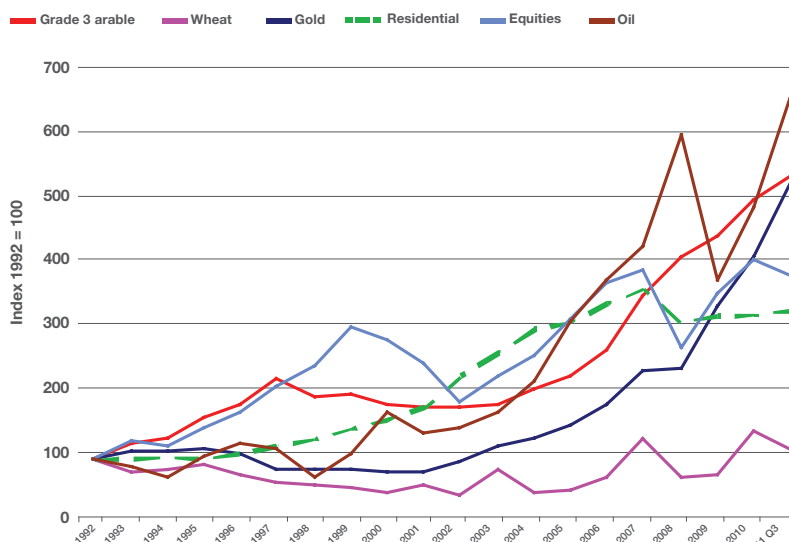
“The ongoing global economic woes, which look likely to persist for the foreseeable future, will only act to strengthen farmland’s position as a safe haven”

→ has only been at this low level on two other occasions since 1998.

In Wales supply fell by 49% to just under 7,000 acres in the first three quarters of this year.

The figures below do not take account of any privately marketed farms but anecdotal evidence suggests that there continues to be an active private market for farmland. ■

GRAPH 4
Farmland values outstrip wheat, equities and residential



Graph source: Savills Research

OUTLOOK

■ Prior to the MacSharry reforms in 1992, market activity dipped. Again in 2003 and 2004 before the Mid Term Review and the introduction of the Single Farm Payment Scheme market activity fell significantly and then gradually recovered in the subsequent years.

■ We expect the overall activity in the farmland market across Great Britain to remain similar to last year for the remainder of 2011. However, in the short term, as we have seen historically, the uncertainty of the current reforms of the CAP could have a negative impact on farmland supply. Although there should be less disruption to the market than prior to 2005 as the rules for entitlement transfer are already clear.

■ The uncertainty caused by the CAP reforms and pressure on average prime residential values may dampen our farmland growth predictions slightly. However, it is most likely that the final subsidy will not be very different from current levels and well within the range of recent payments that exchange rates have resulted in. In Scotland and Wales there is a greater concern because the payment basis changes but the reform will increase returns for as many landowners as it disadvantages.

■ The ongoing global economic woes, which look likely to persist for the foreseeable future, will only act to strengthen farmland’s position as a ‘safe haven’. Graph 4 shows that, even in these uncertain economic times, the performance of farmland is comparable with that of gold and oil – all being recognised as hedges against inflation. In addition, the performance of farmland has outstripped residential assets and it has been less volatile than equities.

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