Savills Research
UK Rural

Market Survey
Agricultural Land

2012

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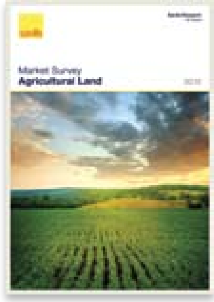
Agricultural Land



Despite the difficult economic climate in the UK and overseas, the farmland market shows signs of remaining more robust than other markets

The UK farmland market is not immune to the wider economic climate, and the marketplace is becoming increasingly diverse.

Forecasters remain downbeat about the outlook for the UK mainstream residential market for 2012, whereas the prospects for agriculture are generally good but tempered by increasing volatility, rising input prices and the future CAP reforms causing some uncertainty.

On the one hand, the opportunities presented by good quality large commercial farms (income generation and capital appreciation) are highly attractive, with a shortage of this type of farm ensuring prices achieved are often significantly above the average figures reported in this bulletin.

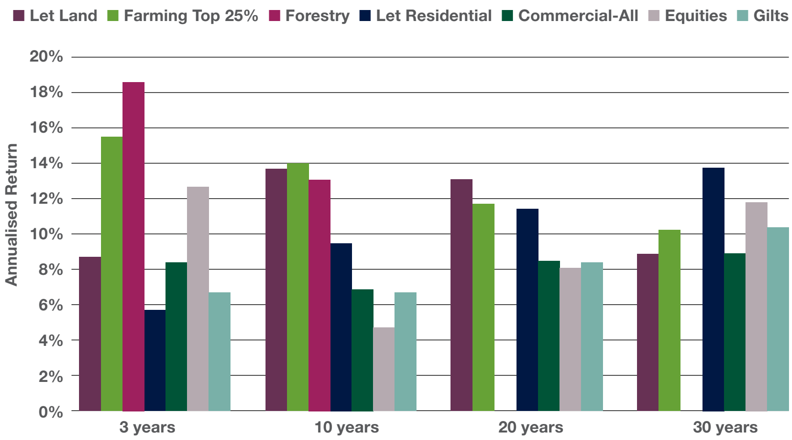
Conversely, amongst buyers there is a resistance to poor quality farmland and to smaller farms where the residential aspect dominates. Sensible guide prices and realistic vendor expectations are key to securing sales in these sectors of the market during 2012.

We expect increased competition for the best commercial farms, which will further widen the price gap between the best and poorer quality farmland – continuing the trend illustrated in Graph 2 overleaf.

"The investment performance of rural assets (let land, farming and forestry) remains positive" Savills Research

GRAPH 1

Rural assets strong and resilient



Graph source: Savills Research, IPD

SUMMARY

An overview of this document

■ In this, our 31st annual Agricultural Land Market Survey, we review the British farmland market for 2011 and examine the factors that may influence the market in 2012 and beyond.

■ UK agriculture continues to prosper despite the difficult economic climate at home and overseas; the total income from UK farming is already more than double what it was at the beginning of the century.

■ In addition, the investment performance of rural assets (let land, farming and forestry) remains positive, as resilience during the current economic uncertainty has led to them outperforming many alternative assets (see Graph 1).

■ The demand for UK farmland coupled with a lack of supply resulted in the average value of grade 3 arable farmland increasing by 6.5% across Great Britain in 2011.

■ However, the gap is widening between good quality commercial arable land and poorer quality farmland, including smaller farms on which the residential aspect dominates.

■ The capital value growth of UK farmland is likely to outperform many commodities markets, residential property, UK gilts and West End offices over the next five years. We expect the average value of farmland in the five years from 2012 to increase by 36%.

Contents

Agricultural Land
Supply and Values

Supply
Our research indicates that the present day turnover in agricultural land remains at historically low levels and is a tiny proportion of the total area farmed – amounting to just 0.5% in England, only 0.25% in Scotland and 0.2% in Wales.

In 2011, the 155,500 acres advertised across Great Britain accounted for just -1% less than during the previous year. With the exception of 2009, this is the lowest annual area marketed since 2003 and 2004 – the years preceding the last CAP reform known as the 'Mid Term Review'.

However, looking at England alone, our research recorded an 11% increase in the volume of publicly marketed farmland last year compared with 2010.

Closer analysis reveals the increased activity was mainly concentrated in the Eastern regions of England with rises in the East and South East of 42% and 35% respectively. Interestingly, this is the complete reverse to the 2010 supply pattern, when the Eastern regions of England recorded the lowest activity.

The supply of publicly marketed farmland fell in all other regions with the West Midlands witnessing a -14% drop and falls of -3% apiece in the North and South West of England.

In Scotland activity fell by -14% with just 31,400 acres marketed during 2011. In Wales, supply halved and was at its lowest since 2006 at just over 7,000 acres.

Values
Savills Farmland Value Survey shows the average value of grade 3 arable land across Great Britain rose during 2011 by 6.5% to £5,612 per acre. This follows an increase of 11% in 2010 and 7.2% in 2009.

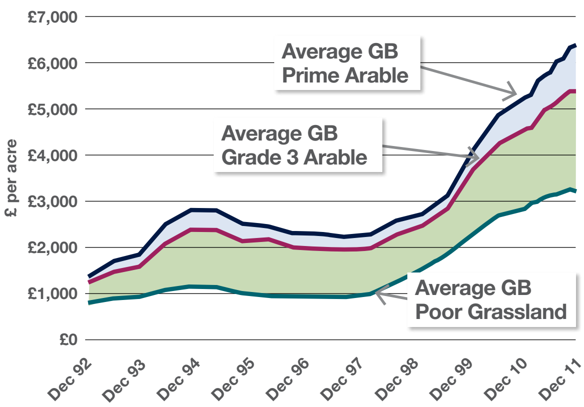
Much of this growth occurred in the first three quarters of the year, with prices losing some momentum in the late autumn. The exceptions were the East Midlands and the East of England, where values rose marginally by 0.7% and 1.1% respectively, during the fourth quarter of 2011.

In England the average value of grade 3 arable land increased 7.3% to just under £6,000 per acre. Scottish and Welsh land values followed this pattern and rose by 2.2% and 3.6% respectively.

As already noted the top performer of the 2011 market was quality commercial arable land – our research confirms the strength of this sector with average prime arable values increasing 8.9% in England, 5.5% in Scotland and 4.7% in Wales.

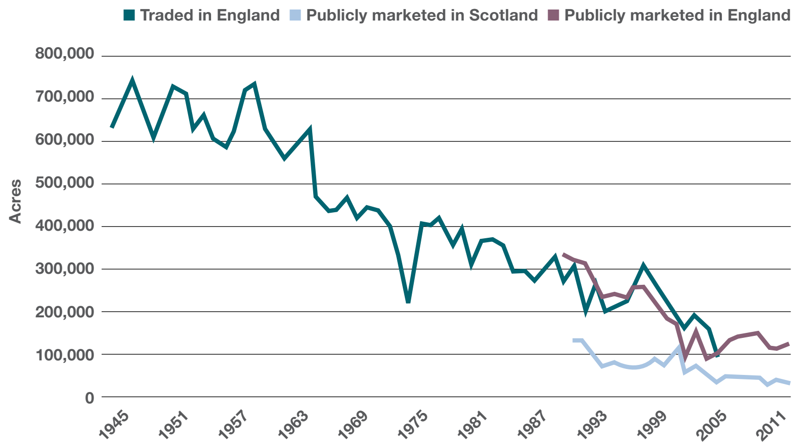
> "In England our research recorded an 11% increase in the volume of publicly marketed farmland, but turnover remains at historically low levels" Savills Research

GRAPH 2
Price gap widens for best farmland



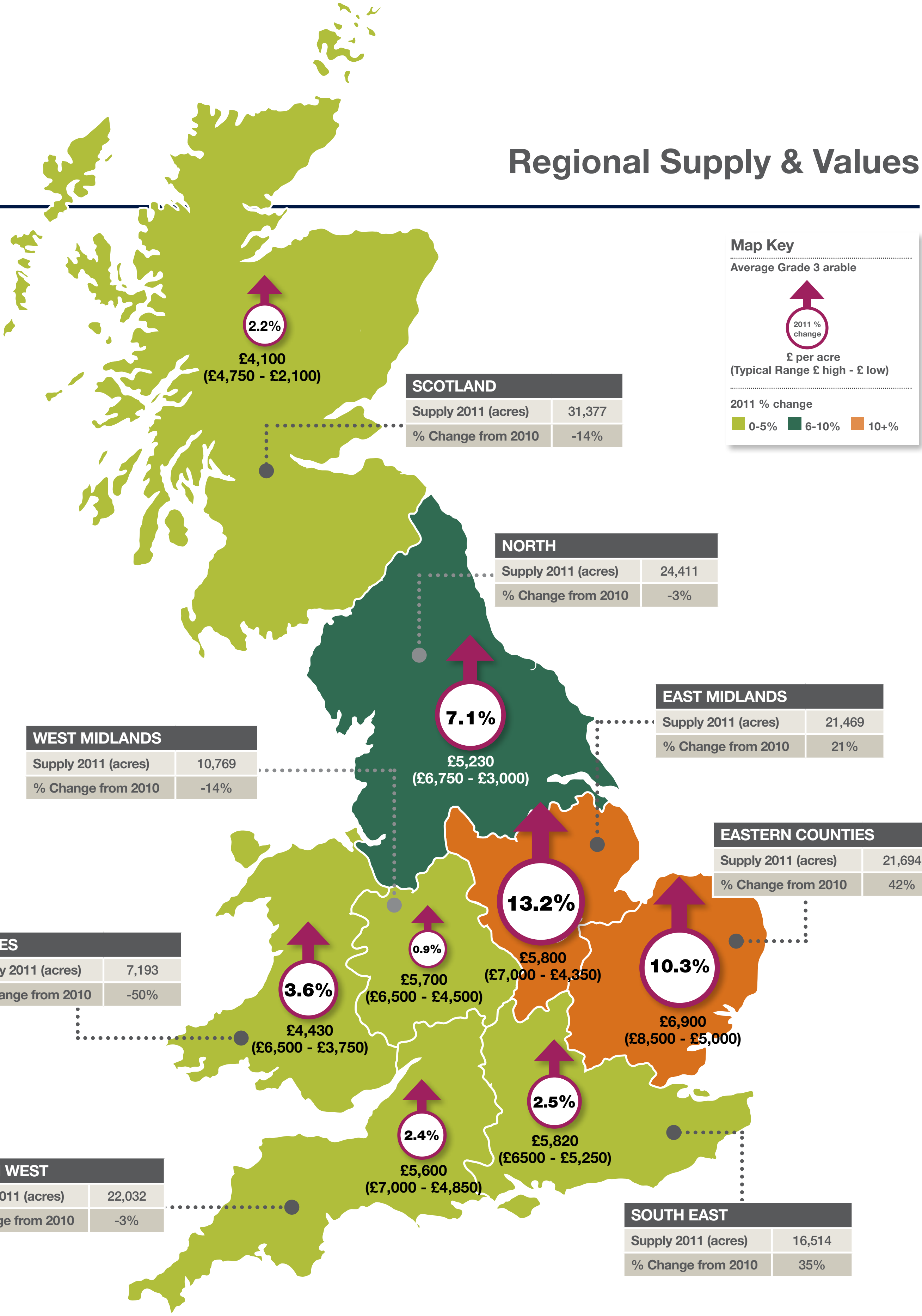
Graph source: Savills Research

GRAPH 3
Supply remains historically low



Graph source: Savills Research, DEFRA (Traded in England series ceased in 2004)

Regional Supply & Values



SCOTLAND	
Supply 2011 (acres)	31,377
% Change from 2010	-14%

NORTH	
Supply 2011 (acres)	24,411
% Change from 2010	-3%

EAST MIDLANDS	
Supply 2011 (acres)	21,469
% Change from 2010	21%

WEST MIDLANDS	
Supply 2011 (acres)	10,769
% Change from 2010	-14%

EASTERN COUNTIES	
Supply 2011 (acres)	21,694
% Change from 2010	42%

WALES	
Supply 2011 (acres)	7,193
% Change from 2010	-50%

SOUTH WEST	
Supply 2011 (acres)	22,032
% Change from 2010	-3%

SOUTH EAST	
Supply 2011 (acres)	16,514
% Change from 2010	35%

Graph source: Savills Research

Agricultural Land
Buyers and Sellers

Analysis of farm transactions for 2011 where Savills was involved in either the sale or purchase highlights some evolving trends in the profile of buyers and sellers.

Farmers

In 2011, the proportion of farmers selling farmland was at its lowest since 1993 at just 43% of all sellers. This compares with 47% in 2010 and continues the steady decline seen since 2006, suggesting a trend of improved confidence within the farming sector as noted in our introduction to this publication.

In contrast, the proportion of farmers buying land rose from 56% in 2010 to 61% in 2011. With the exception of 2009, this is the highest level recorded since 2001 and, as Graph 4 illustrates, continues the steady increase recorded by our research since 2003.

In 2011, farmers represented 54% of all buyers in the eastern regions, 65% in the Western regions and 69% in the Northern (including Scotland) regions.

The main reason for buying farmland was expansion, which was cited as the primary reason in 50% of all deals. The majority of these were farmers expanding their farming businesses.

Buying for residential/sporting purposes is still a significant motive and was behind 25% of all purchases in 2011 compared to 19% in 2010. This level is still not back to that (around a third) recorded in the first half of the last decade.

Private owners/investors

Our research highlights that since 2008 there has been a higher proportion of private landowners selling land than previously. In 2011 they represented 38% of all sellers.

Conversely the proportion of private landowners (new and existing) buying farmland has tailed off since the beginning of the latest recession, but in 2011 they still represented a third of all buyers.

> "In 2011 the proportion of farmers selling farmland was at its lowest since 1993, while the proportion of farmers buying land continues to rise" Savills Research

The Fenmore Estate, Lincolnshire, sold by Savills in 2011

The proportion of private landowners who were buyers peaked in 2003/04 when they represented around 45% of all buyers.

Private landowner buyers (new and existing) are more active in England than in Scotland, where farmers represent 70% of all buyers.

In England, our research shows that these buyers (new and existing) were more active in the eastern regions, where investors were busy buying blocks of large quality commercial arable farms for Inheritance Tax (IHT) reasons.

The proportion of debt related sales doubled to 13% of all deals in 2011 – the highest level since 2006. It is interesting to note that the majority of sellers in these cases were private individuals who were releasing capital for non-farming business interests, rather than farmers.

Personal reasons as the principal reason for selling was at the lowest level for 10 years and accounted for 25% of sales. This was significantly lower than the 42% recorded in 2010.

Corporate/Institutional

Corporate/Institutional seller activity was at its highest level for well over a decade at 17% of all sellers, with public authorities and to a lesser degree traditional institutions accounting for the increase. Raising capital for alternative investments was cited as the principal driver for selling.

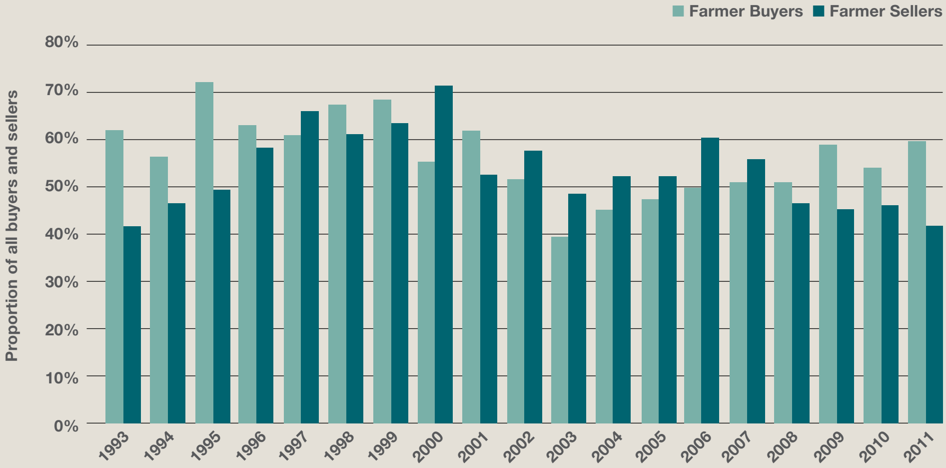
Selling for investment elsewhere was the reason given for 40% of all sales (33% in 2010), which is the highest level since 1996. The sellers in these cases were mainly private and institutional landowners.

Corporate/institutional buyers represented just 5% of all buyers in 2011, similar to 2009 but lower than the 10% recorded in 2010 and the typical level of activity recorded in the mid 2000s, as illustrated in Graph 5.

Buying for investment reasons was cited as the principal reason in 17% of all deals in 2011, lower than the 31% recorded in 2010. This is due to the strength of buyers expanding their farming businesses rather than weaker interest in farmland as an investment.

GRAPH 4

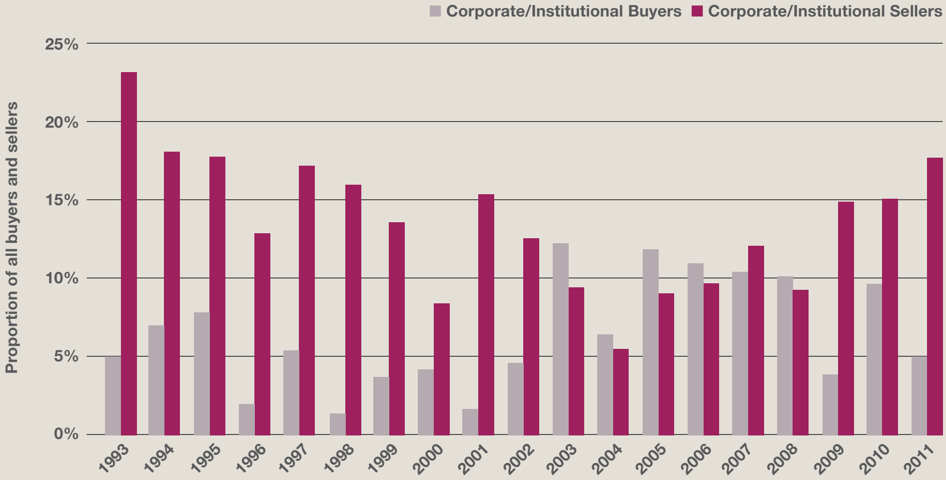
Farmer market activity



Graph source: Savills Research

GRAPH 5

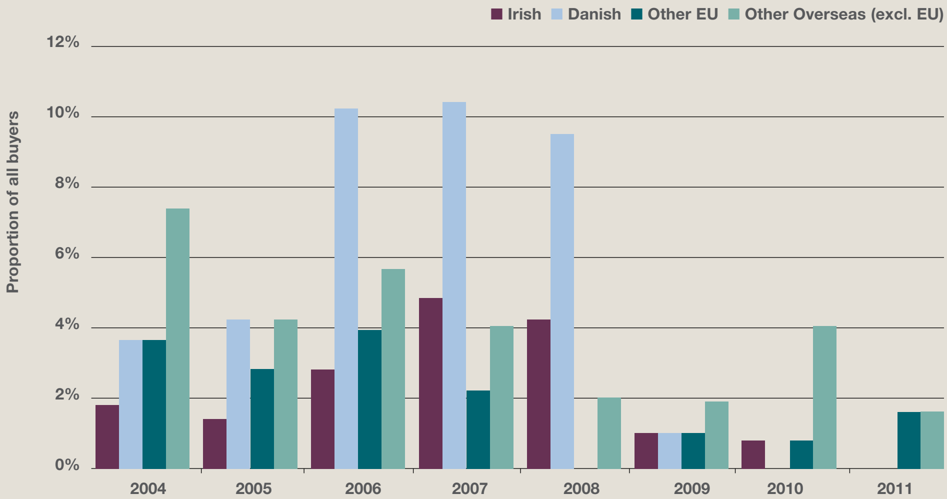
Corporate/Institutional Buyers and Sellers



Graph source: Savills Research

GRAPH 6

A reduction in the number of overseas buyers

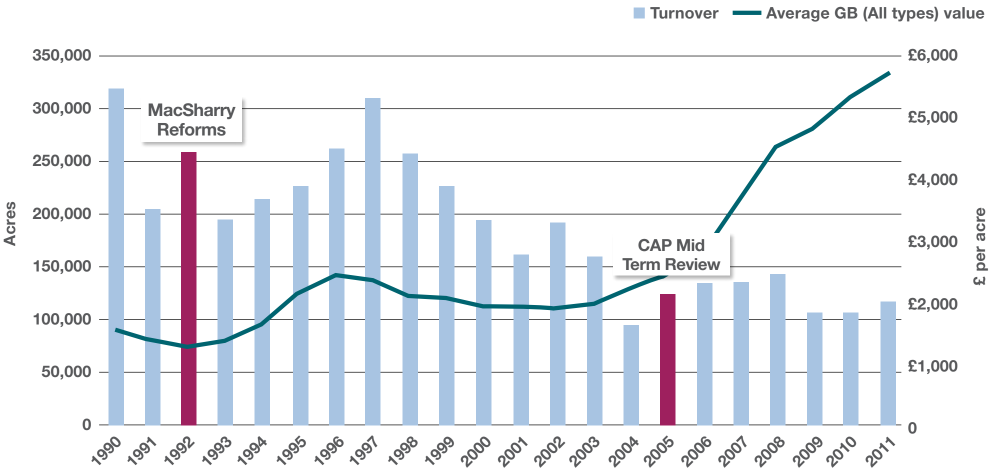


Graph source: Savills Research

Mill Farm, Cambridgeshire, sold by Savills in 2011

GRAPH 7

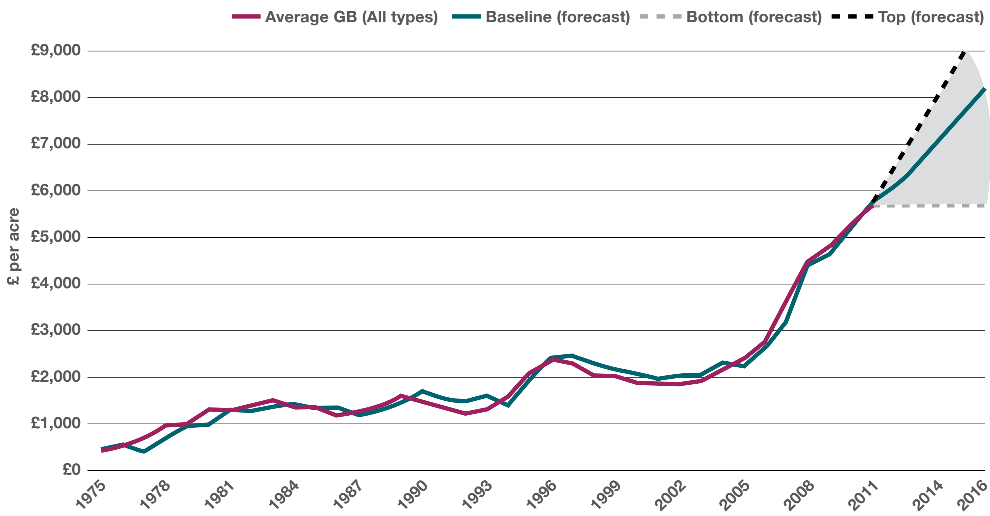
CAP reform affects farmland markets



Graph source: Savills Research & DEFRA

GRAPH 8

The diverse market continues



Graph source: Savills Research

Overseas

The Danes continue to be net sellers of British farmland, with the majority using their gains from the British land market to reinvest at home, where they benefit from rollover relief. They represented 5.3% of all sellers in 2011 and 4.2% in 2010. They were, however, concentrated in the Eastern regions of England and represented 10% of all sellers here.

Graph 6 illustrates how the number of overseas buyers has fallen significantly since the beginning of this economic downturn. In 2011 just 3% of all buyers of farmland were from overseas compared with 22% in 2006. However, they still feature as prospective buyers and bought a few significant properties in 2011.

Source of buying funds

There were no significant changes in the nature of the funds used to purchase farmland during 2011:

- Cash (excluding rollover) remains the main source of funds for farm purchases and was used in 56% of deals compared to 54% in 2010.
- Low interest rates continued to encourage the use of loans, with 26% of purchases at least partly funded by debt finance compared with 27% in 2010.
- Rollover from other sale proceeds was used in 17% of deals compared to 15% in 2010, but the use of rollover money from the sale of land for development virtually dried up, being used in under 1% of transactions.

OUTLOOK

The market in 2012 and beyond

■ The average value of farmland across Great Britain has almost trebled over the last decade. Grade 3 arable land has soared in value from just under £2,000 per acre in 2001 to over £5,500 per acre at the close of 2011. What can we expect for the next decade?

■ Nationally and internationally we are experiencing severe economic uncertainties but, as we have regularly reported, it is these conditions which often drive buyers to farmland as a safe haven for their money.

■ In the short term the latest round of CAP reforms could lead to some uncertainty if past experience repeats itself. Prior to the MacSharry reforms in 1992, the Mid Term Review and the introduction of the Single Farm Payment Scheme in 2005, market activity dipped during the preceding year – see Graph 7.

■ In 2012, we expect the average value of farmland to increase by around 5%, although good quality, large commercial farms are likely to exceed our average growth predictions. However, the prevailing economic uncertainty will manifest in a diverse farmland market with poor quality, poorly located, small blocks and commercial farms with a substantial residential weighting struggling to reach this level of growth.

■ Our annual forecasts to 2016 derived from the Savills Farmland Value Model are illustrated in Graph 8.

■ The outlook for farm incomes is more positive than in recent years, although there is still uncertainty in the sector. Rising costs and volatile commodity prices combined with the current CAP reform present ongoing challenges to farmers. We anticipate that this could impinge on the pace at which some land values increase.

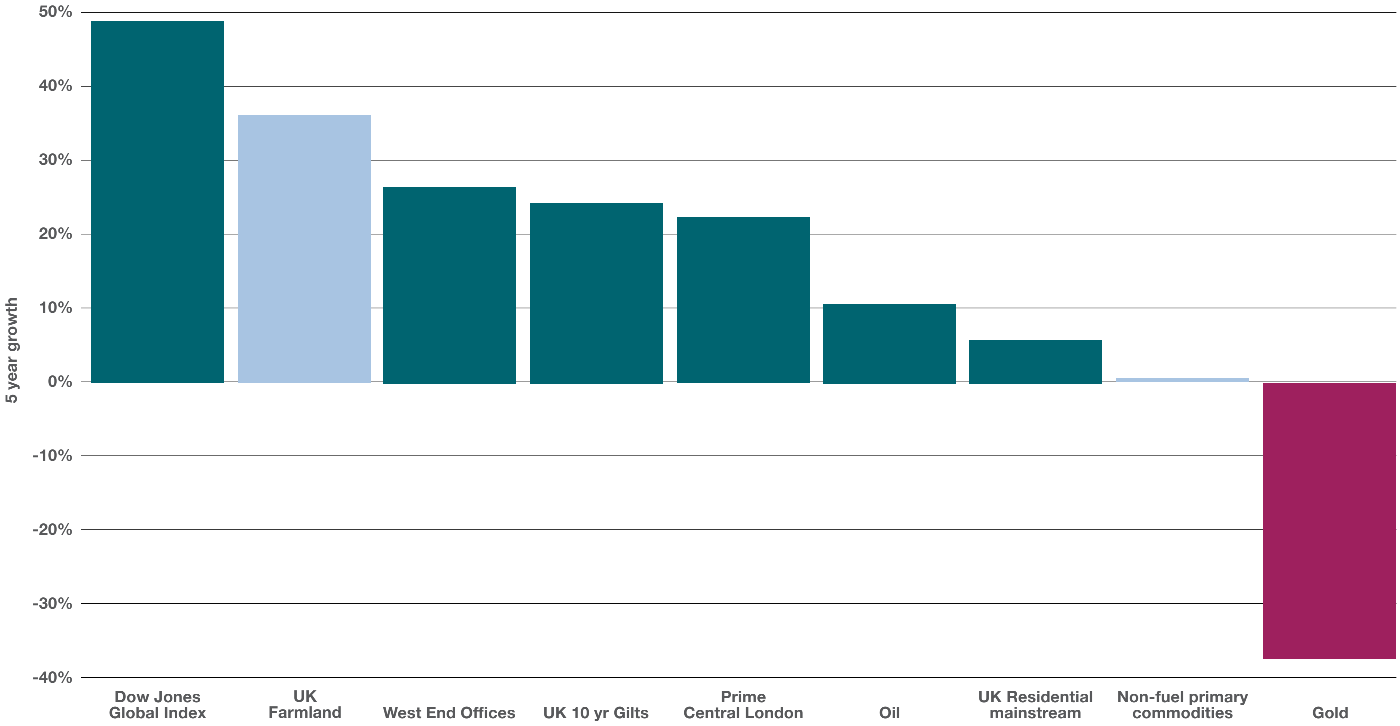
■ Interest rates look set to remain low for 2012 and, along with continued tight supply and the ongoing positive tax benefits of owning farmland, we expect the general trend of farmland values to remain positive.

■ The medium term capital value prospects for UK farmland are extremely positive, although there will be higher yielding alternatives. The capital value growth of UK farmland is likely to outperform many commodities markets, residential property, UK gilts and West End offices over the next five years. We expect the average value of farmland in the five years from 2012 to increase by 36%.

■ Farmland has historically tracked gold, but although Oxford Economics predicts (along with other forecasters) that the price of gold will fall at some point, we see no reason for farmland to do the same.

GRAPH 9

UK farmland against the alternatives for five year growth to 2016



Graph source: Savills Research, Oxford Economics & IPD

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 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

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.

Savills team

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Savills plc
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