

PRICE FALL SLOWS AS BREXIT BECKONS

Farmland demand remains steady despite EU referendum 'out' vote

Farmland performance

3-month change	-1.7%
12-month change	-6%
5-year change	26%
10-year change	160%
50-year change	4,763%

English farmland values fell by just 1.7% in the second quarter of 2016*, compared with a slide of 3% during the first three months of the year, according to the Knight Frank Farmland Index.

The average value of English farmland is now £7,773/acre. While this is 6% lower than the record-high of £8,306/acre hit last September, it still represents an increase of almost 160% over the past 10 years.

This compares strongly with other asset classes. The top end of the residential market in central London, for example, has increased by 98% over the same period, although a post-Brexit scramble for safe-haven assets has seen gold's 10-year return hit almost 200%.

Given that agriculture is the biggest recipient of EU funds via the Common Agricultural Policy (CAP) – many UK farming businesses rely on farm subsidies to break even – it might have been expected that the Brexit vote would have had a bigger effect on prices.

However, there are a number of reasons why this hasn't happened. According to polls, a majority of farmers backed Brexit so the sector will not be unduly pessimistic following the referendum. The

slide in sterling has also had an immediate upward effect on wheat prices and will help livestock exports.

Sterling's loss also makes UK farmland better value for overseas investors – we have already received a number of enquiries from a wide-ranging geographic spread of potential buyers attracted by this currency boost and also farmland's safe-haven status. A new round of potential quantitative easing currently being mooted by a number of central banks could accentuate this trend.

Prices should remain steady for the rest of the year, but looking further forward it is harder to judge where they will head. Much will depend on the outcome of the UK's trade negotiations with the EU and the rest of the world, as well as how the government decides to replace the CAP.

If any of these changes render some farming businesses unsustainable we will likely see more land come to the market. This could put downwards pressure on values, but it will also present opportunities for entrepreneurial businesses and investors, and demand should remain firm.

*Data was collected after the UK's EU referendum



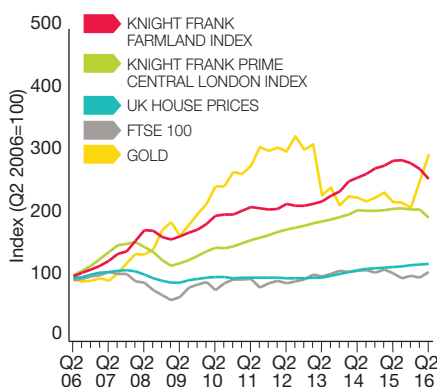
ANDREW SHIRLEY
Head of Rural Research

“The slide in sterling has also had an immediate upward effect on wheat prices and will help livestock exports.”

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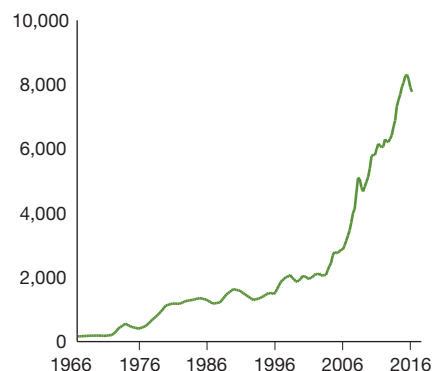
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FIGURE 1
Farmland 10-year performance v other assets



Source: Knight Frank Research

FIGURE 2
Historic farmland performance
£/acre



Source: Knight Frank Research

DATA DIGEST

The Knight Frank Farmland Index tracks the average price of bare (no residential property or buildings) commercial (productive arable and pasture) agricultural land in England. The quarterly index is based on the opinions of Knight Frank's expert valuers and negotiators across the country, which take into account the results of actual sales conducted by both the firm and its competitors, local market knowledge and client and industry sentiment. When combined with UK government statistics, the index shows the performance of farmland since 1944.

Knight Frank Farmland Index

	Quarterly price change	Annual price change	Average value £/hectare	Average value £/acre
Jun-11	2.8%	6.7%	£15,212	£6,156
Sep-11	-1.0%	4.8%	£15,060	£6,094
Dec-11	-0.8%	4.2%	£14,947	£6,049
Mar-12	0.4%	1.4%	£15,007	£6,073
Jun-12	3.7%	2.3%	£15,556	£6,295
Sep-12	-1.2%	2.1%	£15,369	£6,220
Dec-12	-0.1%	2.7%	£15,354	£6,214
Mar-13	1.5%	3.9%	£15,585	£6,307
Jun-13	1.8%	2.0%	£15,866	£6,421
Sep-13	4.0%	7.4%	£16,501	£6,678
Dec-13	3.1%	10.7%	£17,005	£6,882
Mar-14	6.4%	16.1%	£18,098	£7,324
Jun-14	2.6%	17.1%	£18,574	£7,517
Sep-14	2.3%	15.1%	£19,000	£7,689
Dec-14	3.1%	15.2%	£19,583	£7,925
Mar-15	1.7%	10.0%	£19,914	£8,059
Jun-15	2.6%	10.0%	£20,423	£8,265
Sep-15	0.5%	8.0%	£20,524	£8,306
Dec-15	-1.7%	3.0%	£20,176	£8,165
Mar-16	-3.2%	-1.9%	£19,538	£7,907
Jun-16	-1.7%	-6.0%	£19,207	£7,773

Source: Knight Frank Research

Key agricultural indicators*

Commodity prices	Latest	12-month change
Outputs		
Feedwheat (£/t)	109	-9%
Oilseed rape (£/t)	271	3%
Beef (p/kg dw)	337	-5%
Lamb (p/kg dw)	396	3%
Milk (p/litre)	20.4	-14%
Input prices		
Fertiliser (£/t)	170	-41%
Red diesel (p/litre)	44	-18%
Oil (£/bbl)	30	-23%

For more detailed information on the issues affecting UK landowners and farmers, including the latest on agricultural commodity and input markets, please request a copy of the Knight Frank Rural Bulletin or go to www.knightfrankblog.com/ruralbulletin

*Sources: www.fwi.co.uk www.dairyahdb.org.uk

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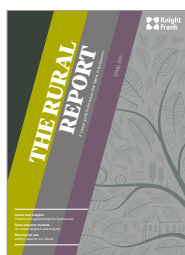
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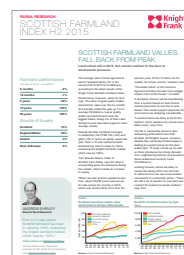
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