



English farmland values set to rise in 2012

Farmland values continued to edge downwards slightly in the final quarter of the year, but are expected to rebound in the first half of 2012. Andrew Shirley and Clive Hopkins, Knight Frank’s Head of Farm and Estate Sales, round up the market.

Farmland performance

3-months	-0.8%
12 months	+4%
5 years	+84%
10 years	+193%

English farmland prices rose on average by a modest 4% during the year, following consecutive drops of almost 1% in each of the final two quarters. Prices, however, remain close to record levels.

“According to the Knight Frank Farmland Index, bare agricultural land is still worth almost £6,050/acre. That is about treble the price being achieved 10 years ago,” says Andrew Shirley, the firm’s Head of Rural Research.

“Although annual growth of just 4% might be considered slightly disappointing compared with farmland’s recent performance, it is still robust given the economic situation facing the UK and global economies. Stock market performance, for example, has been far more disappointing during the year,” he adds (see graph below).

“At the end of Q3 when values fell by 1% we predicted that the farmland market might weaken slightly more before the end of the year, so this quarter’s drop of 0.8% comes as no surprise.”

But prices look set to bounce back next year, says Clive Hopkins, Head of Knight Frank’s Farm and Estate Sales team.

“I think that values will rise by seven to 10% in the first half of 2012, and then remain steady for the rest of the year as an increase in supply pegs back growth.

“The early part of the year tends to be when we see most activity in the market as subsidy cheques arrive and farmers put into action the plans they have been making over the winter.

“We also expect investors to remain interested in farmland. It is becoming more well-known as an asset class with a proven track record of capital growth. Unlike many other investments, it can also offer lifestyle opportunities that can be enjoyed, as well as a decent income.

“We expect the central belt of England down from Birmingham, through the Cotswolds and into Hampshire to prove most in demand with buyers,” adds Clive.

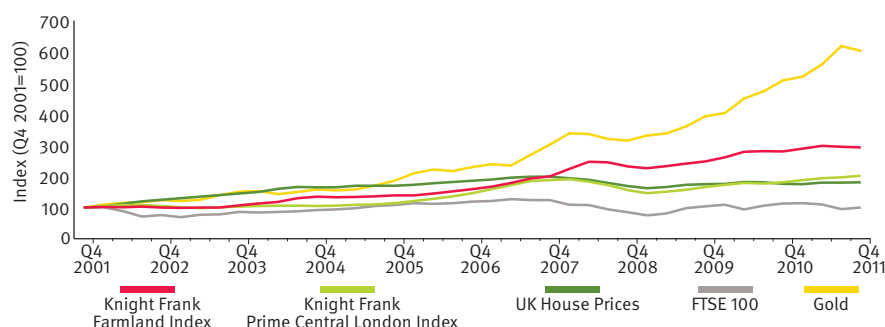
One issue hanging over the market is the on-going reform of the Common Agricultural Policy, particularly the proposed new rules on how subsidy payments will be allocated when the reforms are implemented in 2014 or 2015.

If adopted, applicants must have made some sort of claim in 2011 to be eligible to receive an allocation of subsidy entitlements under the new scheme (although once allocated subsidy entitlements will be freely tradable). This could prejudice anybody buying farmland who was not involved with farming during 2011.

It has been suggested that this could have an impact on the market, but Clive says any effects will be minor.

“This is not like 2005 when there was a fundamental shift in the way subsidies were paid and the market ground to a halt due to all the uncertainty. It could complicate some sales and provide some interesting conundrums for the lawyers to sort out, but I think the market will cope this time around.”

Figure 1
Farmland 10-year capital growth v other assets



Source: Knight Frank Residential Research



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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.

Key agricultural indicators*

Commodity prices	Latest**	Annual change
Outputs		
Feed wheat (£/t)	136	-25%
Oilseed rape (£/t)	339	-15%
Beef (p/kg dw)	345	21%
Lamb (p/kg dw)	458	21%
Milk (p/litre)	29	12%
Input prices		
Fertiliser (£/t)	349	20%
Red diesel (p/litre)	70	23%
Oil (\$/bbl)	110	33%

For more detailed information on the reform of the Common Agricultural Policy as well as the latest on agricultural commodity and input markets, please request a copy of the quarterly Knight Frank Rural Bulletin or go to www.knightfrank.co.uk/rural

*sources: www.fwi.co.uk www.dairyco.net

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Knight Frank Farmland Index

	Quarterly price change	Annual price change	Average value £/Hectare	Average value £/Acre
Dec-06	5.0%	15.0%	£8,140	£3,294
Mar-07	5.0%	20.7%	£8,547	£3,459
Jun-07	7.2%	24.1%	£9,163	£3,708
Sep-07	7.8%	27.4%	£9,877	£3,997
Dec-07	3.3%	25.3%	£10,203	£4,129
Mar-08	11.9%	33.6%	£11,419	£4,621
Jun-08	10.4%	37.5%	£12,603	£5,100
Sep-08	-0.8%	26.6%	£12,505	£5,060
Dec-08	-5.2%	16.2%	£11,852	£4,796
Mar-09	-2.6%	1.1%	£11,548	£4,673
Jun-09	3.1%	-5.5%	£11,911	£4,820
Sep-09	3.2%	-1.7%	£12,290	£4,973
Dec-09	3.0%	6.8%	£12,658	£5,123
Mar-10	5.4%	15.5%	£13,336	£5,397
Jun-10	6.9%	19.7%	£14,257	£5,769
Sep-10	0.8%	17.0%	£14,373	£5,816
Dec-10	-0.2%	13.3%	£14,339	£5,803
Mar-11	3.2%	11.0%	£14,803	£5,991
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

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