

Farmland prices set to rise further in 2013

English farmland's bull-run is not yet over, despite the impact of the horrific weather on farming profitability this year. The market proved resilient in 2012 and is predicted to gain further ground next year.

Farmland performance

3 months	-0.1%
12 months	+2.9%
5 years	+51%
10 years	+202%

The average value of farmland in England rose by almost 3% this year to £6,214/acre, according to the results of the Knight Frank Farmland Index. This takes growth over the past five years to over 50%, and the 10-year increase to more than 200%. In the 60 years since Elizabeth II ascended to the throne, prices have risen almost 11,500% from just £54/acre.

Unsurprisingly, given the summer washout that badly affected harvest, all of the growth in farmland values came in the first half of the year. Prices remained virtually flat in the second six months.

A fall in the supply of good farms for sale, coupled with an increase in demand from private investors, helped to keep prices stable and we expect values to increase by around 5% next year. More land may come to the market as some more highly-gearred producers with one bad harvest in the barn and another in the ground decide to call it a day. However, there is unlikely to be the kind of glut that could pull back prices.

An increase in availability, particularly of good blocks of arable land, could actually benefit the market with more stock for potential buyers to choose from and bid on. There will, however, continue to be strong regional variations. Areas like the Cotswolds that are attractive to buyers from outside the locality are likely to remain hotspots,

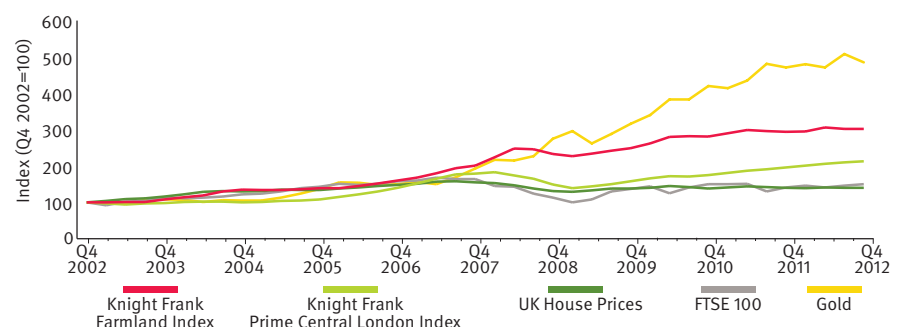
but in areas where demand is mainly driven by neighbouring farmers, smaller, less productive parcels of land could prove harder to sell.

The recent confirmation by the taxman that character-appropriate farmhouses will not be hit by the new annual charge on £2m+ residential properties owned by companies will also settle the nerves of some contemplating a purchase. If farming hadn't been given relief from the tax, designed to clamp down on Stamp Duty Land Tax avoidance, it would have affected farming partnerships where one of the partners is a company, and also overseas buyers who often use a corporate structure for their purchases.

It has also recently been announced that the ongoing reforms of the Common Agricultural Policy (CAP) will not now be implemented until 2015, a year behind schedule. This delay should not affect the farmland market as it seems likely that the current system of farm support payments is likely to remain, albeit with a greater emphasis on the delivery of environmental benefits.

Although equities did outperform farmland for the first time since the credit crunch last year, the global economic recovery is still sporadic and we expect farmland to remain an attractive investment asset over the coming years.

Figure 1
Farmland 10-year capital growth v other assets



Source: Knight Frank Residential Research



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RESIDENTIAL RESEARCH FARMLAND INDEX Q4 2012



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	12-month change
Outputs		
Feed wheat (£/t)	213	57%
Oilseed rape (£/t)	365	8%
Beef (p/kg dw)	367	6%
Lamb (p/kg dw)	358	-22%
Milk (p/litre)	29	0%
Input prices		
Fertiliser (£/t)	301	-14%
Red diesel (p/litre)	71	1%
Oil (\$/bbl)	107	-3%

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 quarterly Knight Frank Rural Bulletin or go to www.knightfrank.co.uk/rural

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

Knight Frank Farmland Index

	Quarterly price change	Annual price change	Average value £/Hectare	Average value £/Acre
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
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

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