

PRICES FALL FOR FIRST TIME IN THREE YEARS

Farmland values slip in Q4 2015 as agricultural commodity markets remain weak.

Farmland performance

3-month change	-1.7%
12-month change	3%
5-year change	41%
10-year change	196%
50-year change	5,089%

English farmland values fell by almost 2% in the final quarter of 2015 to end the year at £8,165/acre, according to the Knight Frank Farmland Index.

The drop was the first quarterly fall since December 2012. However, the average value of bare agricultural land still rose 4% in the first half of the year and 3% overall during 2015. This compares with a rise of 1% for prime London residential property and falls for the FTSE 100 (-5%) and gold (-7%).

There are a number of reasons why values have come back. The continuing run of low commodity prices had to have an impact on buyer confidence at some point – feed wheat is worth just half of what it was fetching just a few years ago and many dairy and livestock businesses are struggling to remain profitable.

But the fact that land values have held up so well indicates that commodity prices are far from the most important driver of the land market.

Uncertainty about the outcome of the EU referendum, likely to be held this year, will also be holding back some

potential buyers concerned about the potential impact of a Brexit. The delayed payment of agricultural subsidies to some farmers and a potential hike in interest rates will also have dampened spirits.

So where now for prices? Currently we are not predicting that the Q4 fall presages a long run of prices drops, indeed, assuming the UK votes to remain in the EU, it is entirely possible that 2016 could see prices rise slightly.

Many farming businesses, particularly those with profitable renewable energy schemes, remain cash generative and are looking to expand. There are also a significant number of farmers who have sold land for development or via compulsory purchase and are looking for agricultural property to reinvest into.

The market will continue to be extremely localised. Large blocks of investment-grade land which were achieving prices of over £13,000/acre last year may see values come off as investors await the outcome of the EU referendum, but where there is competitive bidding from local farmers, values will remain firm.



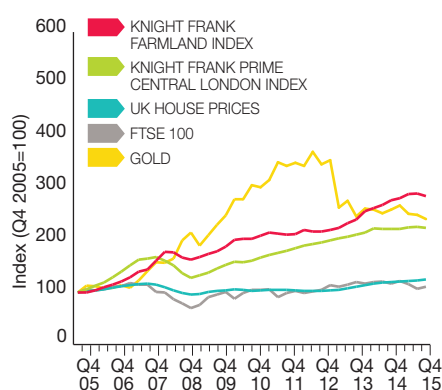
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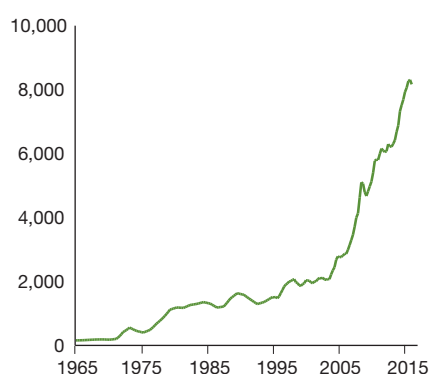
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FIGURE 1
Farmland 10-year performance v other assets



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
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
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

Source: Knight Frank Research

Key agricultural indicators*

Commodity prices	Latest	12-month change
Outputs		
Feedwheat (£/t)	104	-19%
Oilseed rape (£/t)	257	0%
Beef (p/kg dw)	348	-5%
Lamb (p/kg dw)	367	-13%
Milk (p/litre)	24.2	-12%
Input prices		
Fertiliser (£/t)	229	-15%
Red diesel (p/litre)	43	-22%
Oil (£/bbl)	22	-41%

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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