

MULTI-TRACK MARKET EMERGES AS NEW ERA FOR AGRICULTURE DAWNS

Farmland values slip in 2016, but could stabilise this year

Farmland performance

3-month change	-2.6%
12-month change	-9%
5-year change	23%
10-year change	127%
50-year change	4,501%

The average value of bare agricultural land in England and Wales fell by 2.6% in the final quarter of 2016, according to the Knight Frank Farmland Index.

Overall, prices dropped by 8.5% during the year to just under £7,500/acre. Although this was the largest annual decline since 1999, it needs to be viewed in the context of the immense change that is set to sweep across the UK's farming industry.

Given that the decision to leave the EU will have the biggest impact on agriculture of any event since Britain joined the European Economic Community in 1973, the market remains remarkably robust.

Sustained low interest rates, historically low levels of land for sale, a bounce in the value of commodity prices and a growing number of farmers with rollover funds from land sold for developments like HS2 are all helping to sustain farmland values. And, crucially, despite the uncertainty it brings, many farmers see leaving the EU as an opportunity rather than a threat.

However, the combined influence of all these factors varies hugely across the country. Much has been made in recent years of a developing "two-tier" market for farmland, but we are now in a more complex multi-speed environment where the outcome of almost every sale is hard to predict. Potential buyers are certainly more cautious in the absence of other bidders, but strong prices are still being achieved where there is competition from other interested parties.

Looking forward, land values are likely to remain steady over the next 12 months as the imbalance between supply and demand continues. Sterling's ongoing weakness will continue to buoy commodity prices and boost remaining EU subsidy payments, while the government's recent announcement that it wants to build one million new homes by 2020 may also provide localised support over the next few years.

The big test of the market will come when the UK actually leaves the EU and any transitional period for agricultural support comes to an end.

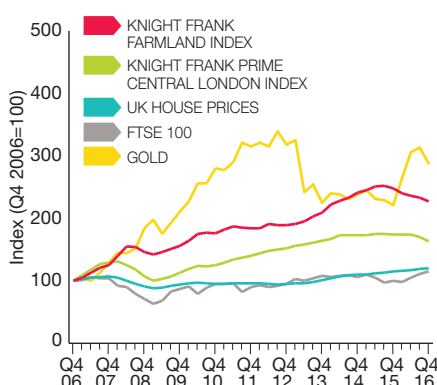


ANDREW SHIRLEY
Head of Rural Research

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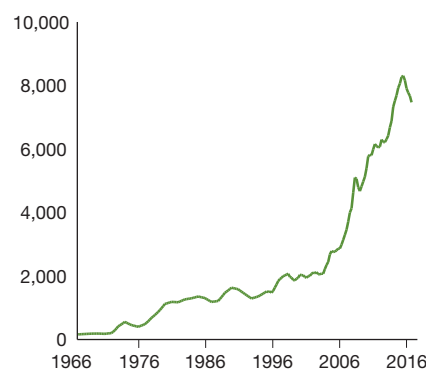
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FIGURE 1
Farmland 10-year performance versus other assets



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-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
Sep-16	-1.3%	-7.6%	£18,957	£7,672
Dec-16	-2.6%	-8.5%	£18,458	£7,470

Source: Knight Frank Research

Key agricultural indicators*

Commodity prices	Latest	12-month change
Outputs		
Feedwheat (£/t)	138	34%
Oilseed rape (£/t)	349	37%
Beef (p/kg dw)	367	7%
Lamb (p/kg dw)	391	11%
Milk (p/litre)	26.2	10%
Input prices		
Fertiliser (£/t)	238	4%
Red diesel (p/litre)	51	19%
Oil (£/bbl)	41	85%

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.dairy.ahdb.org.uk

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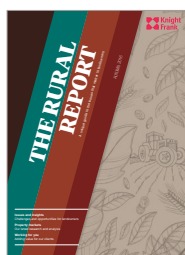
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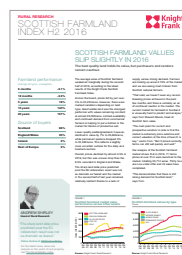
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