

Scottish farmland price growth set to continue

After rising strongly in 2012, farmland values in Scotland will increase further this year, predicts Knight Frank

Farmland performance (average all types, unweighted)

3 months	0%
6 months	+4%
12 months	+7%
5 years	+66%
10 years	+194%

Source of buyers*

Scotland	54%
England/Wales	38%
Ireland	2%
Europe	7%

*6-month rolling average

Farmland values rose by 7% on average during 2012, according to the latest results from the Knight Frank Scottish Farmland Index (see overleaf for a breakdown of values by land type).

Agricultural land in Scotland has now almost tripled in value over the past 10 years, outperforming many other asset classes, such as the FTSE 100 equities index and UK residential property, in terms of capital value growth (see Figure 1).

Price increases have historically tended to lag slightly behind the English farmland market, but there is now very little difference in performance. This trend has not been lost on investors, says James Denne, who heads up Knight Frank's Scottish Farm Sales' team.

"I have just sold a large block of good arable land to an investment fund. The price was slightly lower than they would probably have had to pay south of the border, but the prospects for capital growth are just as good."

Investors are also attracted to farmland because it is more tangible and less volatile than some other investments, particularly during times of economic uncertainty, says Andrew Shirley, Head of Rural Research.

"If a company you have invested in fails, the value of your shares could be worthless. Farmland will always retain its underlying worth and will continue to provide a rental income. It is

also unlikely to experience the short-term peaks and troughs that affect equity markets."

Farmland also compares favourably to other "safe-haven" investments like cash deposits and government bonds, adds Andrew. "Your capital may be extremely safe in the bank, but the returns can be so low that after taking into account inflation the value of your asset is actually eroding."

Scottish farmland also offers other opportunities for investors, not to mention lifestyle purchasers, as well as agricultural income, points out Ran Morgan, Head of Estate Sales.

"We are currently selling a large Highlands estate that boasts some amazing stalking, fishing and shooting, but it also has a huge potential income from hydroelectricity. This has really caught the imagination of potential purchasers who like the idea of owning a fabulous sporting estate that can actually pay for itself."

Subsidy payments for renewable electricity production are particularly attractive for hydro schemes, which can be less controversial than wind projects, adds Ran.

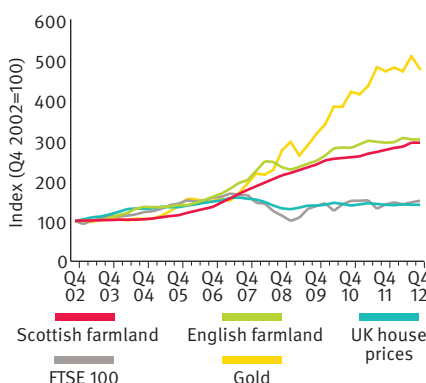
Looking forward, the Knight Frank Scottish Farmland index predicts further growth in values of 3-4% over the next 12 months. "It doesn't seem as if there will be any more land on the market in 2013 than last year, so I expect values to maintain their steady upwards trajectory," says James.

"Investors are also attracted to farmland because it is more tangible and less volatile than some other investments, particularly during times of economic uncertainty."



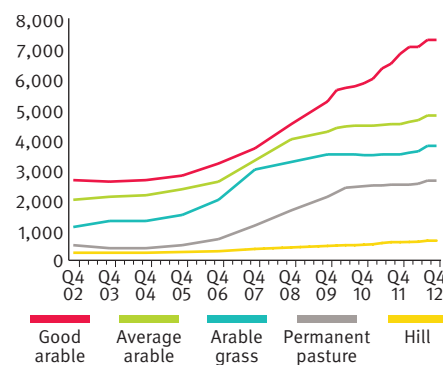
Andrew Shirley, Head of Rural Research

Figure 1
Scottish farmland capital value performance versus other assets



Source: Knight Frank Residential Research

Figure 2
Scottish farmland values by type
£/acre



Source: Knight Frank Residential Research

RESIDENTIAL RESEARCH SCOTTISH FARMLAND INDEX Q4 2012



Data digest

The **Knight Frank Scottish Farmland Index** tracks the average price of bare (no residential property or buildings) commercial (productive arable and pasture) of various types of agricultural land in Scotland. The quarterly index is based on the opinions of Knight Frank's expert valuers and negotiators across the country, that take into account the results of actual sales conducted by both the firm and its competitors, local market knowledge and client and industry sentiment.

Key agricultural indicators*

Commodity prices	Latest**	12-month change
Outputs		
Feedwheat (£/t)	198	25%
Oilseed rape (£/t)	380	5%
Beef (p/kg dw)	372	9%
Lamb (p/kg dw)	352	-21%
Milk (p/litre)	30	3%
Input prices		
Fertiliser (£/t)	301	-13%
Red diesel (p/litre)	70	-2%
Oil (\$/barrel)	109	-2%

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

**Prices correct as of 18 Feb

Knight Frank Scottish Farmland Index (average value £/acre)

Quarter	Good arable	Average arable	Arable grass	Permanent Pasture	Hill
2007 Q4	3,700	3,300	3,000	1,150	375
2008 Q1	3,900	3,475	3,063	1,275	388
2008 Q2	4,100	3,650	3,125	1,400	400
2008 Q3	4,300	3,825	3,188	1,525	413
2008 Q4	4,500	4,000	3,250	1,650	425
2009 Q1	4,688	4,063	3,313	1,763	438
2009 Q2	4,875	4,125	3,375	1,875	450
2009 Q3	5,063	4,188	3,438	1,988	463
2009 Q4	5,250	4,250	3,500	2,100	475
2010 Q1	5,625	4,375	3,500	2,250	488
2010 Q2	5,700	4,425	3,500	2,400	500
2010 Q3	5,750	4,450	3,500	2,425	500
2010 Q4	5,850	4,450	3,475	2,450	515
2011 Q1	6,000	4,450	3,475	2,475	530
2011 Q2	6,340	4,475	3,500	2,475	571
2011 Q3	6,500	4,501	3,500	2,500	600
2011 Q4	6,825	4,501	3,500	2,500	600
2012 Q1	7,053	4,576	3,558	2,500	606
2012 Q2	7,053	4,633	3,603	2,531	614
2012 Q3	7,285	4,786	3,783	2,633	649
2012 Q4	7,285	4,786	3,783	2,633	649

Residential Research

Andrew Shirley
Head of Rural Research
+44 20 7861 5040
andrew.shirley@knightfrank.com

Farm Sales

James Denne +44 1578 722814
james.denne@knightfrank.com

Rural Valuations

Michael Ireland +44 13 1222 9625
michael.ireland@knightfrank.com

Estate Sales

Ran Morgan +44 13 1222 9600
ran.morgan@knightfrank.com

Press Office

Charlotte Palmer +44 20 7861 5037
charlotte.palmer@knightfrank.com



© Knight Frank LLP 2013 - This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Residential Research or Knight Frank LLP for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Residential Research. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Registered office: 55 Baker Street, London, W1U 8A

Recent market-leading research publications



English Farmland Index Q4 2012



The Rural Report Autumn/Winter 2012



UK Rural Bulletin Autumn 2012



Prime Scottish Property Index Q4 2012

Knight Frank Research Reports are available at www.KnightFrank.com/Research