CULTIVATING THE BEST RETURNS
INVESTING IN UK FARMLAND
2014
As UK farmland is becoming increasingly popular with investors, both locally based and from overseas, I thought a summary of what makes agricultural land so attractive would be useful for private individuals, institutions and funds considering a purchase. The following report has been compiled by our Rural Research team and looks at the latest price trends and market drivers.

**Pricing Trends**

**Long-term capital growth**

One of the most compelling reasons to buy farmland is its steady increase in value. Figure 1 shows how prices have risen over the past 50 years.

In 2013, the average value of English farmland hit a record high of £6,882/acre, according to the Knight Frank Farmland Index, taking 10-year capital growth to an impressive 210%.

Across the country, prices vary widely depending on land type, quality and the level of buyer competition. Investment-grade arable land, however, has risen even more steeply in value, routinely selling for between £8,000 and £10,000/acre, or significantly more in some cases. Large blocks of 1,000 acres or above command premium prices because of their relative scarcity.

Even taking into account inflation, farmland has still shown growth of 130% over the past 10 years as Figure 2 shows.

**Comparative performance**

Farmland’s track record of growth and its tangible nature mean it is often mentioned in the same breath as gold, when investments are being compared. Over the past 10 years gold has in fact just outperformed agricultural land in terms of capital values, rising by 212% in value.

Gold’s performance, however, has been far more volatile (Figure 4) with steep climbs followed by equally sharp falls. In 2013, for example, while farmland continued to climb, the precious metal lost over a quarter of its value as investors turned to higher yielding assets as the global economy improved. Figure 3 shows the relative volatility of farmland compared with other asset classes.

Despite a rally in 2012 and 2013, the UK’s leading equities (+51%) have lagged well behind the performance of farmland over the past 10 years and even prime central London residential property (+132%) has not kept pace.

**Market Drivers**

**Supply and demand imbalance**

The balance between supply and demand is usually what determines the price of an asset and farmland is no different. As we discuss below, there are many reasons to buy farmland. However, the amount of farmland for sale publicly has been dropping as Figure 5 clearly shows.

There are a number of explanations for this.

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**Figure 1**

50-year English farmland performance (£/acre)

- Source: Knight Frank Residential Research

**Figure 2**

English farmland price growth adjusted for inflation

- Source: Knight Frank Residential Research

**Figure 3**

10-year asset price volatility (Q4 2003 to Q4 2013)

- Source: Knight Frank Residential Research

*Knight Frank Prime Central London Residential Index

**Source:** Knight Frank Residential Research

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Most farmland in the UK is still owned by family businesses that are long-term holders of land and unlikely to sell unless forced to. Distressed sales do occur, but are relatively rare because high land values mean the ratio of debt to capital for most owner-occupiers is low compared with other industries.

Agricultural support payments also help to cushion farmers from commodity market volatility allowing businesses to cope with periods of low prices better than they might otherwise. The liberalisation of agricultural tenancy legislation in 1995 and the availability of tax reliefs on rented land also make farmland ownership an attractive option for those who no longer want to actively farm the land themselves.

A significant volume of land is traded off-market each year, but accessing this market is not easy without professional assistance.

**Safe-haven investment**

As mentioned earlier, the sustained capital appreciation of UK farmland makes it an attractive asset class to hold, but its tangible nature combined with the UK’s transparent legal and land-tenure system means it also acts as a good “defensive” component of any property portfolio.

This partly explains the increase in demand in the wake of the global financial crisis and why farmland’s performance is often countercyclical with other asset classes such as equities.

**Demographic changes**

At a macro level the rationale to invest in farmland is compelling. Not only will there be more mouths to feed as the world’s population grows, but many of those mouths are demanding more meat and dairy-derived foodstuffs, which require more land to produce compared with traditional grain-based diets.

The latest arable and livestock commodity price forecasts from the EU predict strong growth over the next 10 years, on the back of growing global demand.

Land degradation and urbanisation is also decreasing the area of farmland, particularly in the developing world.

**Agricultural expansion**

Farming in the UK is becoming increasingly polarised between businesses that are looking to develop by growing larger and those that are remaining small, but focusing on the production of higher-value products. Those businesses looking to expand are active both in the acquisition of farmland and also the rental market, helping to support capital values and rents.

**Yield enhancement**

Taking away capital growth the yield from UK farmland tends to hover at around 2% per annum, according to figures published by IPD. However, we believe higher yields, as well as enhanced capital values, are available on actively managed investment portfolios.

This can be achieved by reviewing tenancy structures, taking rented land back in-hand, maximising development potential and the introduction of new income streams such as diversified farming enterprises and renewable energy projects.

**MARKET OUTLOOK AND TRENDS**

We do not see the key drivers for the UK’s farmland market – in particular the limited availability of investment-grade farmland – diminishing significantly in the near future. The latest reform of the Common Agricultural Policy has largely maintained the area-based subsidy system for farmers and demand is likely to remain strong.

We predict prices will increase by at least 5% per annum on average over the next five years.
Headed by Tom Raynham, Knight Frank’s Agricultural Investments department was created in response to the growing demand from investors for a dedicated service to help them buy into the UK’s farmland market.

Tom has been buying, selling and managing UK farmland for over 10 years and is currently one of the very few agents specialising in the acquisition of large-scale agricultural investments. He works with private individuals, funds and institutional investors. As well as buying and selling farmland, either on the open market or via off-market and highly discrete deals, for his clients, Tom works in conjunction with Knight Frank’s Rural Consultancy department to provide on-going strategic and day-to-day management advice to purchasers to help them maximise the returns and capital value of their agricultural investments.

Tom can also help match existing landowners who want to release some of the capital value of their land with potential investors. Deals can be structured in such a way that the vendor continues to farm the land with the opportunity to buy it back at a given point in the future, if required.