



English farmland values fall

Farmland values fell back slightly in the third quarter of the year. Knight Frank's agricultural property experts explain why and predict where the market may be heading.

Farmland performance

3-months	-1%
12 months	+5%
5 years	+94%
10 years	+204%

The average value of English farmland fell by 1% in the third quarter of the year. This follows a period of strong growth that saw prices hit a new record high (see table overleaf).

"According to the Knight Frank Farmland Index, bare agricultural land is still worth over £6,000/acre. That is 5% higher than 12 months ago and almost double the prices being achieved five years ago," says Andrew Shirley, the firm's head of rural research.

"In terms of capital appreciation, farmland has outperformed many other asset classes over both the short and long term. The FTSE 100, for example, has lost around 10% of its value in the past three months alone and has grown by a miserly 6% in the last decade," he adds.

So why have farmland values weakened slightly now and is it the start of a longer-term trend? Clive Hopkins, head of Knight Frank's Farms and Estates team, thinks not. "Against the backdrop of growing economic uncertainty in the UK and around the world, there was a bit of a perception among buyers and investors that the market could be overheating slightly.

"People have decided to take a step back, but that doesn't mean they are not interested in the right product - they are just being cautious. A number of my clients looking to invest say they are waiting to see how the economic situation pans out over the next six months."

Tom Raynham, head of national farm sales, says buyers are taking a much tougher stance. "There is a perception that anybody who is selling must have a good reason. Potential purchasers don't feel they need to rush and are prepared to wait for the right price."

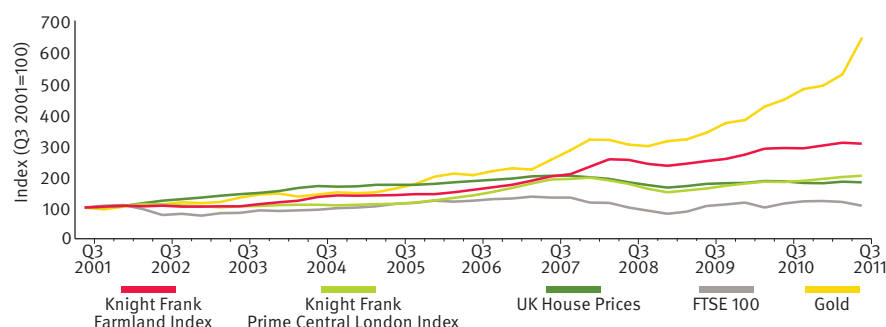
Banks are also becoming more cautious, says James Prewett, who heads up farm sales in central and western England. "They still see farmland as a safe asset to lend against, but given their rising concerns over property markets in general, they can be bit twitchy when prices start to creep above £7,000/acre.

"Cereal prices hit a record high earlier in the year, but they have come back quite sharply since then and arable farmers who might be considering buying more land are waiting to see what happens now."

The market is becoming increasingly polarised with land that attracts competitive bidding due to its location or quality still achieving very strong values. "In the Cotswolds we sold some land this year for around £11,000/acre, but something in Warwickshire that didn't generate quite such excitement went for £6,750," explains Clive.

Prices are likely to remain flat or weaken slightly in the final quarter of the year, but will rebound in the first half of 2012, he predicts. "The general direction of the land market is still upwards as investors look to tangible assets supported by strong fundamentals."

Figure 1
Farmland 10-year capital growth v other assets



Source: Knight Frank Residential Research



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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	Annual change
Outputs		
Feed wheat (£/t)	155	3%
Oilseed rape (£/t)	364	22%
Beef (p/kg dw)	333	21%
Lamb (p/kg dw)	387	5%
Milk (p/litre)	27	8%
Input prices		
Fertiliser (£/t)	345	55%
Red diesel (p/litre)	70	28%
Oil (\$/bbl)	106	43%

For more detailed information on agricultural commodity and input markets, plus the latest issues affecting rural property ownership, 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
Mar-05	-1.1%	17.5%	£6,810	£2,756
Jun-05	0.5%	13.3%	£6,843	£2,769
Sep-05	1.3%	4.8%	£6,933	£2,806
Dec-05	2.1%	2.8%	£7,079	£2,865
Mar-06	0.0%	4.0%	£7,079	£2,865
Jun-06	4.3%	7.9%	£7,383	£2,988
Sep-06	5.0%	11.8%	£7,753	£3,137
Dec-06	5.0%	15.0%	£8,140	£3,294
Mar-07	5.0%	20.7%	£8,547	£3,459
Jun-07	7.2%	24.1%	£9,163	£3,708
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

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