

The Smiths Gore review of the
English farmland market

January – March 2011



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Review of the Farmland Market – January to March 2011

English farmland market's upward trajectory continues
Prices hit all time high as demand continues to outstrip supply

Farmland prices in England rose by 4% in the first quarter of 2011 to an all time high of £7,900 per acre, showing the strength of the land market compared with others, like the housing market, which are still weak.

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This review is based on Smiths Gore's database of all publicly marketed farmland over 50 acres in England, which is collated by our in-house research department, and commentary on regional farmland markets from our farm agency team.

The main points are:

Prices – both bare and equipped markets are strong

- At the end of the first quarter, bare land values averaged £5,600 per acre – up 5% on the previous quarter, whilst equipped land averaged £8,600 per acre – up 4% - another all time high.
- Both bare and equipped land values have now recovered from the dip following the peak of the market in 2008.

	Farmland values in England (£/ac)				Farmland values in England (% change from previous quarter)		
	Bare land	Equipped land	All land		Bare land	Equipped land	All land
08Q1	£4,100	£8,000	£7,400	08Q1	9%	1%	1%
08Q2	£4,400	£8,400	£7,700	08Q2	9%	5%	4%
08Q3	£4,500	£8,300	£7,700	08Q3	2%	-1%	1%
08Q4	£4,900	£8,100	£7,500	08Q4	7%	-3%	-3%
09Q1	£4,800	£7,800	£7,400	09Q1	0%	-3%	-2%
09Q2	£4,800	£7,400	£7,000	09Q2	-1%	-6%	-5%
09Q3	£4,900	£7,000	£6,700	09Q3	2%	-5%	-4%
09Q4	£4,800	£7,200	£6,700	09Q4	-2%	2%	1%
10Q1	£4,900	£7,300	£6,700	10Q1	1%	2%	0%
10Q2	£5,100	£7,500	£6,900	10Q2	6%	3%	3%
10Q3	£5,200	£8,000	£7,300	10Q3	1%	7%	5%
10Q4	£5,400	£8,300	£7,600	10Q4	3%	4%	4%
11Q1	£5,600	£8,600	£7,900	11Q1	5%	4%	4%

Supply – market is mirroring 2010

- Just over 16,000 acres were marketed in January to March, the same as last year, and more than 1Q2009 when 13,700 acres were for sale.

	Area of farmland marketed in England (acres)				Number of properties marketed in England		
	Bare land	Equipped land	All land		Bare land	Equipped land	All land
08Q1	5,200	17,000	23,000	08Q1	27	56	83
08Q2	9,700	42,000	51,000	08Q2	63	196	259
08Q3	9,500	50,000	59,000	08Q3	68	171	239
08Q4	5,700	19,000	25,000	08Q4	43	62	105
09Q1	2,500	11,000	14,000	09Q1	14	48	62
09Q2	9,000	49,000	58,000	09Q2	57	168	225
09Q3	5,500	28,000	34,000	09Q3	38	101	140
09Q4	2,500	7,800	10,000	09Q4	26	37	63
10Q1	4,500	12,000	16,000	10Q1	30	56	86
10Q2	7,500	45,000	53,000	10Q2	54	187	241
10Q3	8,900	33,000	42,000	10Q3	71	143	214
10Q4	2,200	7,600	9,800	10Q4	23	46	69
11Q1	4,900	11,000	16,000	11Q1	32	60	92

4. 92 farms and parcels of land over 50 acres were marketed in 1Q2011. This is comparable with the same period last year (86 farms) and 48 % more than during the equivalent period of 2009 (62 parcels marketed).
5. 60 equipped farms (farms with buildings) were marketed in 1Q2011, compared with 56 in the same period in 2010.
6. Slightly less equipped land was marketed (11,300 acres) than during the first quarter of last year (11,700). The area marketed was also comparable with 1Q2009 when 11,100 acres were brought to market.
7. Average unit size this quarter was 188 acres, smaller than the 208 acre average for 2010.
8. 32 parcels of bare land were marketed in 1Q2011, which is more than the same period in 2010 (30 properties).
9. 4,900 acres were marketed in 1Q2011, 9 % more than in 2010 (4,500 acres).
10. The constricted supply is more obvious when you look at the amount for sale in the six autumn and winter months:

Land for sale in England between September and March	acres
2007/08	40,500
2008/09	38,500
2009/10	27,300
2010/11	26,000

11. The small size of the market is even more obvious when individual regions, let alone counties, are looked at. For example, there have been only two blocks of land over 50 acres for sale in the whole of the North East since Christmas.
12. Due to this, competition is fierce and prices are being driven up as buyers fight for what might be the once in a lifetime opportunity.

	Number and area of all land marketed per region All farms (First quarter (January to March))								
	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorkshire and Humber	England
Number of farms for sale									
09Q1	10	6	0	9	7	19	8	3	62
10Q1	14	20	2	11	12	16	7	4	86
11Q1	13	9	2	14	14	19	9	12	92
Total area (acres)									
09Q1	2,300	3,100	0	2,000	1,200	3,600	1,200	300	13,700
10Q1	1,700	5,500	500	1,200	2,700	2,800	1,200	400	16,100
11Q1	2,400	2,500	200	1,800	2,400	2,400	2,000	2,500	16,100

Demand – continuing strong demand

13. Prices are still rising due to strong demand, from both farmer and non-farmer buyers, and the continuing low supply of land for sale.
14. Although demand is strong, it continues to have stronger and weaker spots. Demand in southern England is particularly strong, with regional hot spots like Dorset. Demand is generally patchier in northern England.
15. Demand from farmers is good, based on current high commodity prices. Non-farmer buyers are also active in the market, and our agency team reports considerable interest from buyers looking to roll over capital gains into farmland. Demand from investors is weaker as yields continue to fall due to values continuing to rise faster than income from the land.
16. The weakness of the wider UK economy has not affected the market to any great degree in the quarter.

	Farmland purchaser by type (%) (RICS Rural Land Market Survey)					
	Individual farmer	Agricultural	Non-farmer	Investor	Developer	Other
08H1	56 %	8 %	27 %	4 %	4 %	1 %
08H2	60 %	8 %	26 %	2 %	2 %	2 %
09H1	62 %	7 %	25 %	3 %	1 %	2 %
09H2	63 %	8 %	24 %	3 %	1 %	2 %
10H1	59 %	7 %	28 %	4 %	2 %	1 %
10H2	65 %	7 %	23 %	3 %	2 %	0 %

Regional analysis

	Bare arable values in England (£/ac) (Opinion-based data from Smiths Gore farm agents)								
	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorkshire and Humber	England
09Q2	£6,000	£5,000	£4,250	£5,500	£5,000	£5,200	£6,000	£5,500	£5,300
09Q3	£6,250	£5,000	£4,500	£5,500	£5,000	£5,200	£6,250	£5,500	£5,400
09Q4	£5,750	£5,000	£4,500	£5,500	£5,000	£5,100	£5,750	£5,500	£5,300
10Q1	£5,250	£5,000	£4,750	£5,500	£5,000	£5,500	£5,250	£5,500	£5,200
10Q2	£5,800	£5,300	£5,250	£6,000	£5,100	£5,600	£5,600	£5,750	£5,600
10Q3	£7,000	£5,750	£5,750	£6,000	£5,200	£5,700	£6,500	£6,000	£6,000
10Q4	£7,000	£6,000	£5,800	£6,000	£5,200	£5,300	£6,500	£6,000	£6,000
11Q1	£7,250	£6,000	£5,800	£6,000	£5,500	£5,400	£6,500	£6,000	£6,100
% change	4%	0%	0%	0%	6%	2%	0%	0%	1%

	Bare pasture values in England (£/ac) (Opinion-based data from Smiths Gore farm agents)								
	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorkshire and Humber	England
09Q2	£4,500	£3,000	£3,700	£5,000	£4,800	£5,000	£4,500	£3,500	£4,300
09Q3	£4,750	£3,000	£3,700	£5,000	£4,800	£5,000	£4,750	£3,500	£4,300
09Q4	£4,750	£3,000	£3,700	£5,000	£4,800	£4,900	£4,750	£4,000	£4,400
10Q1	£4,750	£3,000	£3,800	£5,000	£4,800	£5,500	£5,000	£4,000	£4,500
10Q2	£5,000	£3,000	£3,800	£5,500	£4,900	£5,600	£5,000	£4,000	£4,600
10Q3	£5,900	£3,000	£4,000	£5,500	£5,000	£5,500	£4,000	£4,000	£4,700
10Q4	£5,900	£3,000	£4,000	£5,500	£5,000	£5,400	£5,000	£4,000	£4,700
11Q1	£5,900	£3,000	£4,000	£5,500	£5,250	£5,500	£5,000	£4,500	£4,800
% change	0%	0%	0%	0%	5%	2%	0%	13%	2%

	Equipped land values in England (£/ac) (Opinion-based data from Smiths Gore farm agents)								
	East Midlands	East of England	North East	North West	South East	South West	West Midlands	Yorkshire and Humber	England
09Q2	£7,000	£7,000	£7,500	£6,000	£7,000	£5,500	£7,000	£8,000	£6,900
09Q3	£7,250	£7,000	£7,500	£6,000	£7,000	£5,800	£7,250	£8,000	£7,000
09Q4	£7,000	£7,000	£7,250	£6,000	£7,000	£5,800	£7,000	£7,500	£6,800
10Q1	£7,500	£7,000	£7,250	£6,000	£7,000	£6,000	£7,500	£7,500	£7,000
10Q2	£7,750	£7,000	£7,250	£6,000	£7,000	£6,200	£7,750	£7,500	£7,100
10Q3	£9,000	£7,000	£7,500	£6,000	£7,000	£6,500	£9,000	£7,500	£7,400
10Q4	£9,000	£7,000	£7,500	£6,000	£7,000	£6,300	£9,000	£7,500	£7,400
11Q1	£10,000	£7,000	£7,500	£6,000	£7,250	£6,400	£9,000	£7,500	£7,600
% change	11%	0%	0%	0%	4%	2%	0%	0%	2%

**Commentary on regional farmland markets
from our farm agency team**



North West

"There is strong demand from agricultural buyers looking to expand their farmable areas and spread their fixed costs. We are also selling the Duchy of Lancaster's Winmarleigh estate (at 2,000 acres)."

Simon Waller Preston office
t 01772 663124



West Midlands

"Still very little coming onto the market - of any size. We know that investors are actively looking for farm land as some existing larger landowners have reversed 'sell' to 'buy' policies. This will increase the competition for farmers in the market - pushing prices up further - including for farm rents, which rose by over 20% in 2010."

Harry St John Oxford office
t 01865 733304



Wales

"The market continues to be small with plenty of pent up demand."

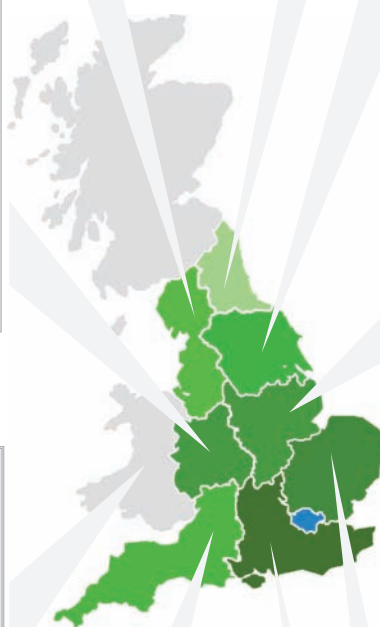
Giles Wordsworth Oxford office
t 01865 733302



South West

"It looks like a fairly bare market in the South West. There is strong demand for commercial arable units but little available to buy. We don't think that there will be much in the spring market. Overall, demand remains strong in the region. A parcel of 36 acres of average bare grassland fetched £5,500 per acre."

Simon Derby Taunton office
t 01823 445036



North East

"There is still very strong demand, especially for commercial farming units or bare arable land. However, buyers are discerning so sensible pricing is key to securing successful sales. We have agreed the sale of Stapleton Manor Farm (house, buildings, cottage and 206 acres). Also our bare grassland lots in County Durham are selling very well. There are signs of increased activity in the region and I am expecting more farms for sale during the summer."

Iain Welsh Darlington office
t 01325 370500



Yorkshire and Humber

"Demand remains consistently strong from all buyer groups. We are expecting some good sales results this spring and summer."

Sam Tydeman York office
t 01904 756303



East Midlands

"Farmers remain the principal buyers in the market. Some areas remain in greater demand than others - depending on local buyers. However, overall even poorer land is finding takers at respectable levels. The most significant sales in the region have been the UK Coal sales that we advised on."

Giles Wordsworth Oxford office
t 01865 733302



East of England

"Demand is generally good and supply is short, so it is a sellers' market, with rare exceptions. The outlook is very good and prices should remain firm or improve on the back of continued strong wheat prices. As in 2010, however, there is not the extent of foreign buyers and we are seeing stronger domestic demand, increasingly from farmers."

Bennett Swayne Newmarket office
t 01638 676748



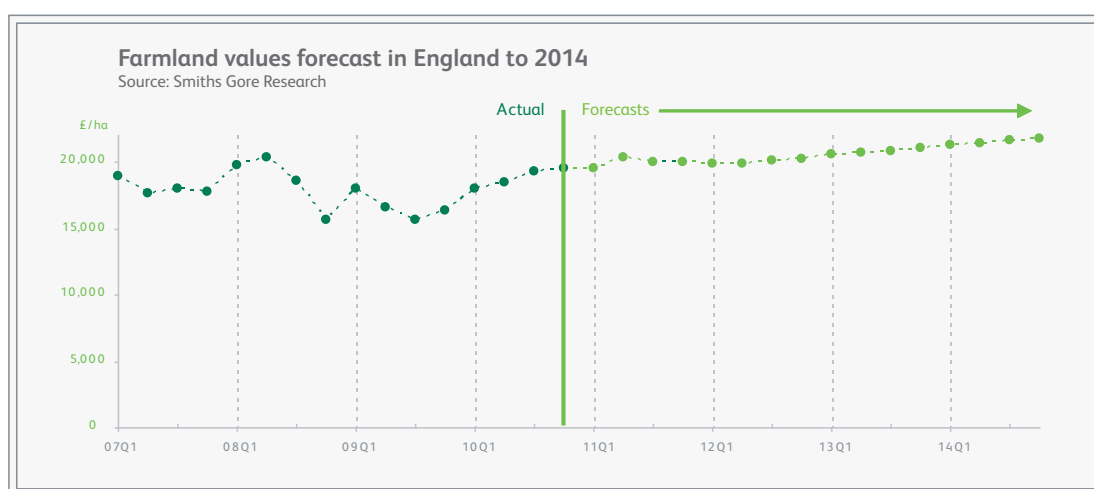
South East

"There is still a good level of demand but very little coming onto the market. We expect there to be more land on the market this Spring compared with last. There is still amenity land as well as farmland available."

David Slack Maidstone office
t 01732 879053

Market outlook

17. We don't think that the fundamentals of the market will change. Continuing strong demand and low supply is likely to continue while the CAP reform is agreed.
18. Our English farmland market model forecasts bare prices to continue to rise (2-3 % pa) but with equipped farm values continuing to be slightly weaker, especially in 2011 and 2012, due to:
 - (i) Farmers thinking values are too high and so less active as bidders
 - (ii) Commodity price uncertainty (despite the medium-term outlook)
 - (iii) Political uncertainty due to CAP reform in 2013, particularly for farmer buyers.
19. The Office of Tax Simplification has carried out a review of all tax reliefs and has recommended a review of Inheritance Tax. If the reliefs attached to land are reduced or removed, including Agricultural Property Relief and Business Property Relief, land will be much less attractive to non-farmers buyers. This would cause demand to fall and have a downward pressure on prices. There would be a certain irony to this being done by a Conservative government after over a decade of Labour government during which the reliefs and tax system around land was largely unchanged.
20. Longer term, we expect higher rises in values in 2013 and 2014 as the CAP Reform is agreed, the impact on development of the UK Government's localism agenda is clearer and the economy continues to recover.
21. The upside to this forecast is that the farmland market is not behaving rationally at the moment so prices may rise more strongly. The downturn in the wider housing market since mid 2010 has not had a significant effect on the market so our optimistic forecast is for land values to rise by 5 % or more in 2011.



The Smiths Gore English farmland market model

Our model has been running since 2006 and is based on analysis of the farmland market from 1993 onwards. The model's estimates are based on two types of analysis, carried out in March 2011:

A. Historic and current farmland prices

B. Economic and farming factors

- We have identified six factors that affect the farmland market but now only half of them point to increases in farmland values in 2011-2013. Rises in base rates and farm incomes could stifle land values but inflation, higher share prices and average earnings should all support them.

	Economic and farming factors that affect the English farmland market					
	House prices	Base rate	Farm income	Average earnings	FTSE	RPI
Relationship with land prices	If house prices go up, land prices go up	If base rates go up, land prices go down	If farm income goes up, land prices go down	If earnings go up, land prices go up	If shares go up, land prices go up	If inflation goes up, land prices go up
Assumptions for 2011-2013	House prices expected to rise (but latest data questions the strength of recovery)	Consensus forecast is for Bank of England to increase rate to 0.8 % in 2011 (higher than previous forecasts) 1.5 % in 2012 and 2.4 % in 2013	Still expected to rise in 2011-2013 based on EC and USDA outlook for commodities	Expected to continue on long term upwards trend	Increased optimism in market and expected to rise	Consensus forecast expects 4.5 % growth in 2011 dropping to 3.2 % in 2012



Summary

22. The outlook for 2011 looks strong – with prices rising, continuing constricted supply of land for sale and strong demand from both farmer and non-farmer buyers.
23. The lack of land to buy continues to be the dominant factor in the market.
24. It has overshadowed any negative impacts that the forthcoming reform of the Common Agricultural Policy and the UK Government's reform of the planning system and localism agenda have had on the market. The reason for this is the paucity of land for sale at regional and county level – buyers are taking the opportunity to purchase as there is little alternative land to buy.
25. We expect prices to continue to rise. Our model of the English Farmland Market suggests relatively modest rises of 2-3% in 2011 but, if demand and supply remain so out of kilter, significantly higher rises are probable.

If you would like to discuss buying or selling farmland, please contact **Giles Wordsworth**, **Head of Farm Agency**, on **01865 733302** or giles.wordsworth@smithsgore.co.uk

If you have any questions about the review, please contact **Dr Jason Beedell**, **Head of Research**, on **01733 866562** or jason.beedell@smithsgore.co.uk