

FARMLAND SEES BIGGEST DROP SINCE LEHMANS' COLLAPSE

Farmland values fall in Q1 2016 as uncertainty mounts

Farmland performance

3-month change	-3%
12-month change	-2%
5-year change	32%
10-year change	176%
50-year change	4,886%

English farmland values fell by 3% in the first quarter of 2016 with average prices dropping back below £8,000/acre, according to the Knight Frank Farmland Index.

The drop was the largest quarterly decline since the 5% slide that occurred during the final three months of 2008, following the collapse of Lehman Brothers bank.

Given the significant issues weighing on the market at the moment, a period of readjustment is perhaps unsurprising. Agricultural commodity prices remain low with little prospect for a strong rebound in the short term, while the potential implications of a UK exit from the EU are adding further uncertainty.

Last year the feeling was that the "in" campaign was going to win the EU referendum relatively comfortably, but now the polls are predicting a much tighter result, with neither side of the argument yet to establish a convincing lead.

To put the drop into context it should also be noted that the average value of farmland is still only £18/acre lower than

it was at the end of 2014, and remains almost 180% higher than it was 10 years ago. And despite falling in the two quarters after Lehmans' collapse, farmland values had recovered all of their lost value and more by the end of 2009.

Predicting where values will head in 2016 and beyond is almost impossible until we know the results of the EU referendum in June. In the case of a Brexit much will depend on for how long DEFRA commits to providing a replacement system of support payments.

But if sterling weakens for a prolonged period as some analysts predict, this would make UK grain and meat more competitive on global markets. UK land, which is already cheaper than in some EU countries, may also become more attractive to international investors.

Whatever the outcome, we are still seeing strong demand from farmers who are either not reliant on EU subsidy payments or have taken the long-term view that expansion is the way forward for their businesses.



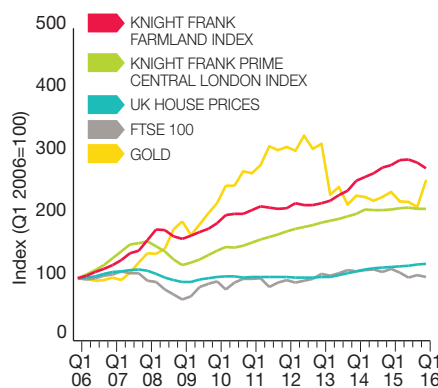
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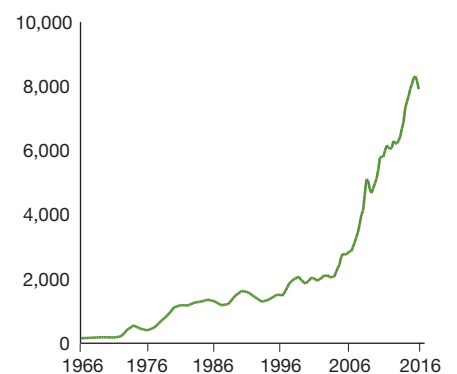
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FIGURE 1
Farmland 10-year performance v other assets



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
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
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

Source: Knight Frank Research

Key agricultural indicators*

Commodity prices	Latest	12-month change
Outputs		
Feedwheat (£/t)	99	-16%
Oilseed rape (£/t)	259	2%
Beef (p/kg dw)	336	-8%
Lamb (p/kg dw)	439	-4%
Milk (p/litre)	23.1	-7%
Input prices		
Fertiliser (£/t)	212	-27%
Red diesel (p/litre)	38	-27%
Oil (£/bbl)	20	-43%

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.dairyahdb.org.uk

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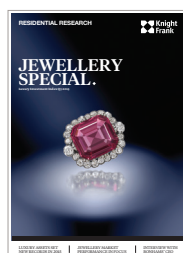
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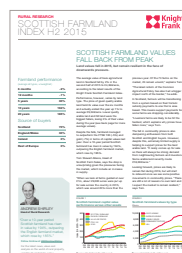
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