

# Market in Minutes Global Farmland Index

June 2016



## SUMMARY

Our Global Farmland Index records steady annualised growth since 2002 of 14.8%

■ Our Global Farmland Index recorded an average annualised growth of 14.8% since 2002 and 6.6% over the past five years.

■ The Index, recording strong steady growth with reduced volatility, shows the benefit of a mixed regional portfolio.

■ Pressure on commodity prices is the common theme across the global downturn in values over the past five years.

■ Long term fundamentals still apply with increased food production (balanced by reduction in food waste) and competitive land use driving demand.

■ Farmland values are less volatile than other commodities and were significantly less affected by the credit crunch in 2008.

■ The Index, launched in 2012, is based on data from 15 key farmland markets and aims to provide a comparative indication of farmland value trends around the globe.

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 “The right asset in the right market will yield positive returns for the investor in the long term”  
 .....

# ACROSS THE GLOBE (Figure 1)

## Central Europe

■ This region recorded the most significant growth, 20.4% annualised since 2002. The graph exhibits the pressure on values experienced in 2013 due to increased political concern surrounding rising levels of international investor interest.

■ Countries with a high index value tend to include those that historically had low base values. As their political stability improved values increased relatively quickly towards levels more representative of the more mature markets of neighbouring Western Europe.

■ Values have been static or decreasing over the last 24 months in Hungary and Romania due to changing Foreign Direct Investment (FDI) restrictions.

■ Poland has exhibited significant growth in recent years but has recently undergone changes to FDI policy that may see static farmland values in the short term.

## South America

■ 17.5% annualised growth since 2002 with some of this growth driven by technological advances in soybean production (especially in Argentina). However, output price pressure over the past three years has resulted in values recording average annualised growth of -9.7% since 2012.

## Australasia

■ Since 2002 annualised growth has been 13% but with some volatility especially in New Zealand where values are closely linked to movements in global milk prices where demand for dairy farmland reflects sentiment surrounding the Chinese powdered milk market.

■ Slower annualised growth over the past ten and five years at 5.9% and 5.5% respectively.

■ Pressure on commodity prices has impacted on values with annualised growth over the past three years of -3.5% and -9.4% in 2015.

■ Despite concerns surrounding FDI regulations investment is still possible. Some of the larger potential purchases

in Australia have been rejected but these have been for some very specific reasons.

## North America

■ Steady 9% annualised growth since 2002 falling to 7.3% over the past three years due to fall of -5% in 2015.

■ Value growth is closely linked to changes in commodity price and farmland profits but with a time lag to allow for lease periods.

## Western Europe

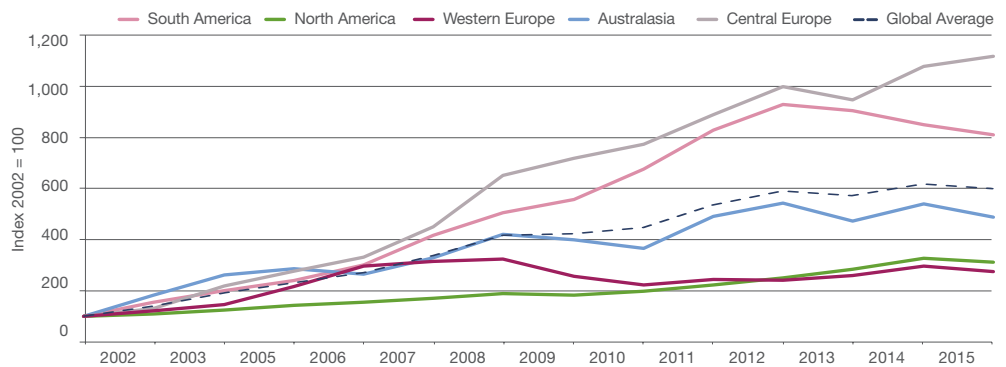
■ Values across Western Europe have recorded the most varied patterns, from significant value

growth and then correction in Denmark and Ireland to steady but strong growth in the UK and Germany and relatively flat performance in France.

■ Annualised average growth across the region of 8% since 2002, significantly lower than the emerging markets but comparable to North America, reflecting the lower risk profile of a mature market.

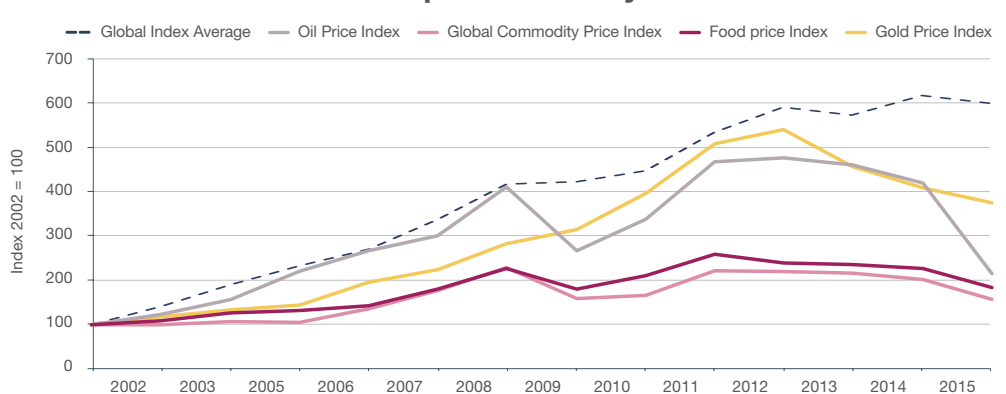
■ Germany has recorded strong growth in values since a policy shift in 2010 by the German Agricultural land body (BVG) to sell off previously state owned land in East Germany to private investors. This land had, since 1992, previously been leased. ■

FIGURE 1 Global farmland Index



Source: USDA, Eurostat and various other data sources/estimates

FIGURE 2 Global farmland values compared with key commodities



Source: USDA, Eurostat, WTO, Kitco, OPEC and various other data sources/estimates

## KEY POINTS (Figure 2)

■ On average farmland values are less volatile than other commodities and have not recorded the significant falls of oil, gold and soft commodities over the past three to four years as the economy has picked up.

■ Farmland values were significantly less affected than other commodities by credit crunch in 2008.



# LAND COST FOR WHEAT PRODUCTION

An innovative way of benchmarking farmland prices to account for regional variables or more specifically investment spend relative to output is to determine the cost of acquiring land in order to grow a tonne of wheat. Our 'land cost for wheat production' league (Figure 3) takes the average value of farmland in 2015 and divides it by the average harvest wheat yield over seven years (2008 to 2014). By taking a seven year period it allows for any weather fluctuations to be accounted for. ■



2015 rankings relatively unchanged from 2010 analysis

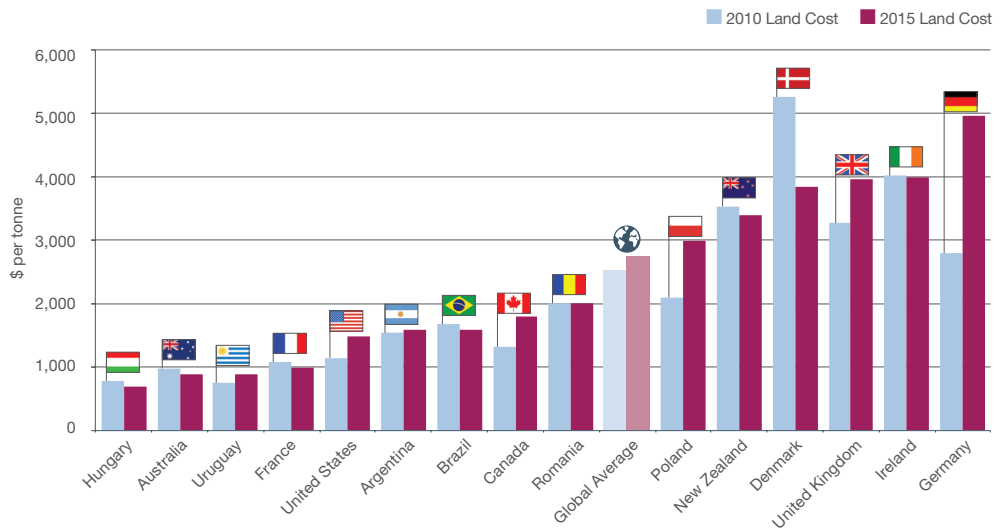


Falling commodity values have been compensated by increased yields

# 7%

Increase in average seven-year global wheat yields

FIGURE 3 Cost of land per tonne of wheat (shift over past five years)



Source: Savills Research

## KEY POINTS (Figure 3)

- 2015 rankings are relatively unchanged from the results of our 2010 analysis (published in our International Farmland Focus 2012) and for several countries there is very little change in the land cost per tonne of wheat.
- In general, falling commodity values have been compensated by increased yields – especially in the emerging markets where significant yield increases have been achieved through improved husbandry and management.
- The significant correction in Danish farmland values has reduced the land cost per tonne of wheat by a quarter.
- Conversely Germany has shown a 77% increase in the land cost per tonne of wheat. This is partially due to non agricultural related incomes from farmland such as energy production and conservation, driving significant value growth.
- Average seven-year global wheat yields have increased by 7% over the past five years, whilst land values have increased 13%, resulting in an overall Global average increase in the cost of land for a tonne of wheat of 8.6%
- This is reflected in the mature markets where crop yield increases are more difficult to achieve but land value growth has been relatively strong, such as the US and Canada.
- In the UK average rolling seven-year yields fell by -1.1% and with land value growth of almost 20% the land cost to grow a tonne of wheat increased significantly.

▼ Savills 'land cost for wheat production' calculations take weather into account



## SUMMARY

### Long term fundamentals still apply

- Continued pressure on output prices in the short term but prices are trending positive in the long term albeit forecasted with more volatility
- Long term fundamentals still apply with increased food production (balanced by reduction in food waste) and competitive land use driving demand
- Investor interest and demand to diversify investment portfolio's will remain strong. Farmland performance tends to be counter cyclical to other assets
- However, political threats need to be carefully watched. These include FDI regulations, trade policies and reducing support from subsidies.

### What does the market overview mean to investors?

- Diversify your portfolio to spread risk; across region, enterprise and performance of both income yields and capital growth.
- Agriculture is long term investment to iron out volatility.
- Due diligence, especially with a range of cultures, political administrations, ownership structures, tax regimes, foreign investment regulations, is essential to understand global markets.
- The key to future investment performance is to increase unit production through land improvement and the efficient use of the latest technologies balancing capital value growth with a reasonable risk profile.
- The right asset in the right market will yield positive returns for the investor in the long term.

## Savills Global Farmland Index Notes

The Index, launched in 2012, is based on data from 15 (plus a Global average) key farmland markets and aims to provide a comparative indication of farmland value trends around the globe. The Index is derived from the average value of crop/ arable land in domestic currency converted to US\$ per hectare. We have added Uruguay to the Index in this update

The 15 countries now in the main Index are Argentina, Australia, Brazil, Canada, Denmark, France, Germany, Hungary, Ireland, New Zealand, Poland, Romania, United Kingdom, United States and Uruguay.

Although converting to US\$ per hectare can have an effect on annual growth rates in terms of domestic currency, it gives potential investors a good starting point for comparable analysis. It is a common denominator, which corresponds to the currency of global markets. The values are represented as an Index relative to values in the year 2002 (2002 = 100).

Obtaining robust farmland value data in some countries, especially the emerging markets, is challenging and there is often a significant time lag before it is published. The Index will be updated and revised as data becomes available. However, we believe the Index represents a good indication in terms of the overall direction of farmland values and gives a clear comparison between the main country groups.

## Savills International Farmland

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