

“They don’t make it any more.” “It’s never been a bad investment.” “Farming will be good one day.” These are just some of the reasons given for buying and owning land. But is the reality that the true desire for land ownership is more closely related to a medieval measure of status than being the sound investment you hope it is?

To make sense of it there are many variables to consider: productive arable or poor pasture, with or without a house, development potential, grain storage, suitability for grape production, etc. If the professional is asked “Is this land a sound investment?” the answer will always start “Well, it depends...!”

For this purpose it helps to consider an example. 300 acres of mid Sussex arable land has come to the market with a guide price of £7,000 per acre. The land is in good heart, the fields are big enough and the land is surrounded by good farmers. It seems likely the guide price will be exceeded. As a potential buyer and already farming 700 acres you are keen to expand. The combination of a 100% rise in wheat prices and continued low interest rates give you confidence that now is the time to take the plunge. Based on your knowledge of the land and a

# Why own land?



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wheat/rape rotation yielding 3.5 and 1.5 tonnes per acre the prospects look reasonable.

The bank manager gives an initial thumbs up and says the capital can be made available at a fixed rate of 5.5% for 10 years but asks to see some profit projections based on a range of output prices. A call to the consultant results in the following:

At first glance the forecasts are difficult to believe. They suggest that wheat and OSR must be at £200 and £450 to cover the interest charge, never

mind any profit for living, reinvestment or capital repayment. You are now a little depressed. You thought you had done well selling milling wheat at £207 and some rape at £405 but are not so sure you will be able to achieve these prices consistently for the next 10 years. You quickly lose interest in the gloomy projections and console yourself with the fact you can spread the additional finance costs over the whole farm and continue to make a profit (even though the reality is that if the new land loses money then profits will fall despite the bigger acreage).

On this analysis alone the opportunity is not as attractive as at first thought. But there is more to it. For a start in April 2000 the average farm land price in England was £2,977 per acre. Today it is somewhere between £6,000 and £7,000 and rising. While we are just beginning to get used to these higher prices some of our European neighbours have been paying in excess of £10,000 per acre for years and so many think we still have some catching up to do. But capital inflation is only part of the story. The advanta-

geous inheritance tax position continues to attract investment from outside of the industry. These “new” farmers and land owners are not only turned on by the opportunity to get some of their huge wealth to the next generation free of tax but also by the prospect of capital growth and an attractive return.

This last bit is new. For two decades agriculture has been unable to offer returns that investors seek. But we now live in different times and the prospect of a yield ranging from 3.5 to 6% is bringing an increasing number of investors to the sector. If the doom and gloom merchants who believe we are still in for a sharp housing and commercial property recession are right then the number of “would be” investors looks set to grow.

Perhaps then the question “Why own land?” has two answers. For those focused on increasing profitability from farming then the acquisition of expensive land is not the answer unless wheat prices rise to unimaginable levels. On the other hand, for those focused primarily on capital growth, income yield and tax breaks then land ownership is very attractive. After all, they don’t make it any more!

Wheat - £ per tonne	£75	£100	£125	£150	£175	£200	£225	£250
OSR - £ per tonne	£200	£250	£300	£350	£400	£450	£500	£550
Cost of Interest - £/acre	£385	£385	£385	£385	£385	£385	£385	£385
Annual Profit before land finance - £/acre	-£5	£76	£157	£238	£320	£401	£482	£563
Annual Profit after land finance - £/acre	-£390	-£309	-£228	-£147	-£65	£16	£97	£178
Investor’s Return %	-0.08	1.08	2.24	3.41	4.57	5.73	6.89	8.05



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