

Raking it in

By

economist.com

2 min

[View Original](#)

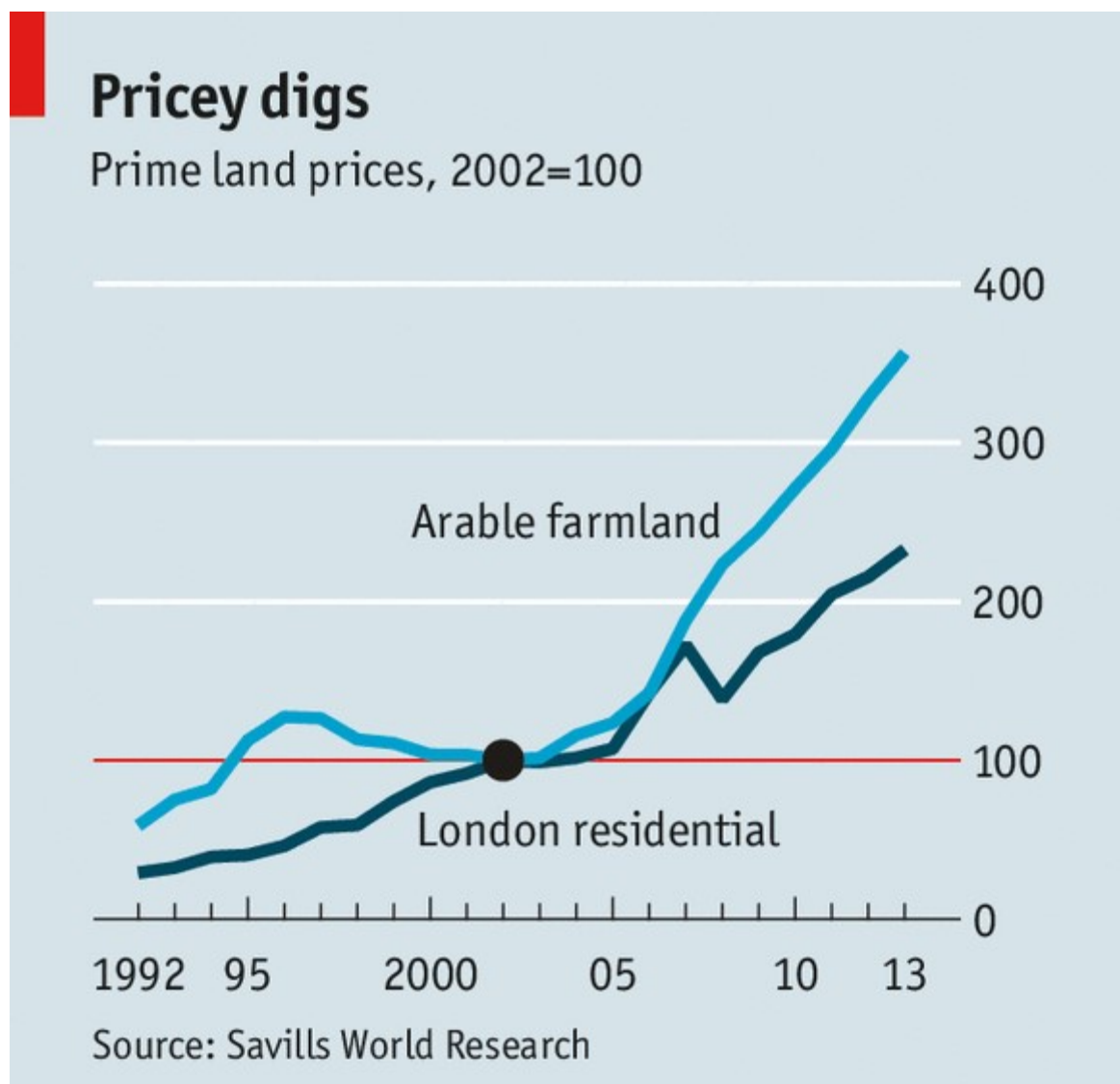
factors of production

supply

THIS summer, as a garage in Kensington in west London went on the market for the price of a 28-bedroom Devon mansion, London property prices reached a new level on the thermostat. But there is a market yet hotter: agricultural land. Over the past decade farmland prices have grown at twice the rate of prime London property prices (see chart), with good agricultural land increasing 270% in value compared with a 135% rise for London houses during that time, according to Savills, a land agent. This makes it three times the price of farmland in America and 15 times the cost of such land in Australia.

One reason for this is increasingly limited supply: in 2000 some 300,000 acres were on the open market; last year this was below 150,000—less than half a per cent of Britain's farmland. Unpredictable weather caused by climate change has cut into food supply abroad, making British farmland more attractive. Tax breaks help, too. After seven years farmland becomes exempt from inheritance tax—as long as the owner farms it, or contracts someone else to do so.

Along with all this has come interest from foreign investors. Traditionally arable land may not have been quite as safe as houses, but it has always been a safe place to bury one's cash, metaphorically if not literally, and this becomes even more important in a recession. Long-term British investors, such as pension funds, are getting more interested.



But land is not just an input for farmers, it is a safe-haven asset too. The largest and fastest-growing group of buyers are farmers themselves. According to Savills, they are gradually reclaiming land from

second-homers and golf-course developers. A decade ago they made up 40% of buyers; they have now reached 66%.

This is because farmers are growing richer. They have benefited from a global surge in commodity prices: wheat, for example, is 80% more expensive than it was five years ago. As commodity prices rise, banks have been more willing to lend.

Not everyone has benefited from the trend. Small farms are getting smaller still. As the price of wheat has risen, so has the price of machinery: it is no longer worth buying a tractor to plough a few fields. Many have sold up to their larger neighbours. Andrew Gazard, a Gloucestershire chicken farmer, says that his local area used to be dotted with small farms. Now most of it is owned by one family.

Will the bubble burst? Savills predict not, saying that the supply of farmland shrinks every year. The trend may slow, however, as production increases and commodity prices start to dip. Cereal prices, after a few good harvests, have already started to decline. It may be time to make hay.