

Commodities boom drives up land values

By Andrew Bounds in Brussels

Published: April 24 2008 03:00 | Last updated: April 24 2008 03:00

With prices of commercial and residential property falling, investors are increasingly turning to a more traditional asset: farmland. Long seen as a declining industry, farming has received a fillip in the last few months as global demand for food has increased. As a result, the cost of agricultural holdings across the European Union has risen to record levels.

In response several funds have recently been set up to buy farmland. In particular the UK, where prices have risen 40 per cent over the last year, has been active. Braemar, a fund manager, is one example. The Manchester-based group has been swamped with offers since it launched a fund this year.

"We closed the fund in two weeks but we are going to reopen it," said Marc Duschenes, chief executive. He would not reveal how much had been raised from wealthy individuals but said the fund would buy its first 200 acres soon. The land will be run by contract farmers so there could be revenue as well as capital gains.

While Braemar faced stiff opposition from farmers looking to expand, he said many were also looking to cash out after 20 years of flat land prices.

Braemar has also opened an offshore open-ended investment fund in Guernsey. "We have everyone from pensioners looking to avoid inheritance tax to stockbrokers looking for a secure investment," he said.

Andrew Shirley, head of rural research at Knight Frank, a property company that is establishing its own agricultural investment fund, said land prices were rising across Europe.

"It is not only UK land values that are increasing sharply, the global commodities boom means investment funds are looking further afield for cheap land and this is helping to drive prices up, particularly in eastern Europe and the former Soviet bloc where there are vast tracts of underutilised and potentially very productive land," he said.

In Lithuania a hectare of agricultural land cost €734 (\$1,167, £589) in 2006 compared with €164,340 in Luxembourg, the most expensive country.

In Poland the US embassy reports that average prices rose 60 per cent between 2003 and 2006.

In neighbouring Ukraine - not an EU member - prices for the best land are forecast to double from \$3,500 per hectare this year as investment funds pile in, Mr Shirley said.

Even Serbia, another non-EU country, has seen a steep increase. Real estate analysts estimate arable land prices this year in Serbia's agriculturally rich northern region, Vojvodina, at roughly €7,000-€8,000 per hectare this year, up sharply from €5,000 last year.

Foreigners cannot buy land in Poland until 2016, while other countries have also slapped on shorter bans to prevent outsiders cashing in. However, it is simple for investors to set up a local company to bypass the rules.

Countries with sales restrictions, such as France, are cheapest. Land is about €6,000 a hectare there because it must be offered first to young local farmers. However, land prices are still 50 per cent up on 2003.

Farmers say that stricter environmental rules are also causing higher prices. "You need more land to produce the same amount," said Peter Gemaelke, head of the Danish farmers' union. He said a recent reduction in the amount of nitrogen that could be used per hectare had lowered yields.

However, as investors eye the prospect of harvesting good returns, some observers caution against too much euphoria. "Until there is greater clarity about the depth of the problems facing the economy, one must add a note of caution," said Mark McAndrew from Strutt & Parker, a UK-based property agency.

Additional reporting by Neil MacDonald in Belgrade, Guy Dinmore in Rome and Theodor Treov in Sofia

[Copyright](#) The Financial Times Limited 2008