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## Renewed interest in international agri land sector

Following the highs of 2008 and the lows of early 2009, there is renewed interest in the agricultural land investment markets of Central and Eastern Europe and South America, says property and business consultants Brown & Co.

Speaking at the recent Global Agricultural Investment Conference in New York, Brown & Co's Adam Oliver said; "We are seeing renewed interest in these sectors from institutional investors. Certain investors subscribe to the view that the key reasons for investing in agricultural land remain strong and are largely the same as they were 12 months ago.

"A number of institutional investors are beginning to re-engage, particularly since many land / equities markets have cooled markedly in the last year. They are cautiously gaining exposure at a fraction of the cost. This is chiefly due to the fact land based investments have performed well in bearish markets and provide a substantial hedge against inflationary pressure. Furthermore, the fundamental imbalance of future soft commodity supply / demand remains with an attractive risk / reward ratio compared to many other asset classes in the current environment."

Brown & Co reports land values in certain Central and E European and S American countries have decreased by varying extents since mid 2008, but more recent trends vary widely from country to country:

### CENTRAL AND E EUROPE

Having acceded to the EU in 2004 – Poland is the most sophisticated of the CEEC countries summarised here. With an EU legal and regulatory backbone to its investment environment, Polish agricultural land values have largely held up in recent months.

"While some weaker class IV land has decreasing by 5-10%, generally land values remain strong with a strong cultural affinity for owning land," says Adam Oliver, based at one of Brown & Co's two Polish offices.

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Following a doubling in land prices since Accession, prices remain Euro 2,500 – 10,000/ha. The Single Farm Payment equivalent in Poland is due to increase from c. Euro 130/ha to Euro 314/ha by 2013.

“We see little pressure for downward movement in the medium term,” says Adam Oliver. “Although pockets of land – particularly poor quality - may suffer from the immediate lack of liquidity in the sector in the short term.”

Having acceded to the EU in 2007, Romania provides a good comparison with Poland and is a year or two earlier on the development curve.

“Agricultural land prices in Romania increased by 30-45% in 2008 vs. 2007 and have since cooled by just 2-5% in certain regions from 12 months ago,” says Adam Oliver. “However, with considerable interest returning to this sector, prices - if anything - are starting to nudge upwards again.”

Broadly the land market divides into two: unconsolidated and consolidated. Unconsolidated land is extremely fragmented and needs piecing together into workable blocks. Prices here, including notary fees etc, are c. Euro 1,200 – 1,800/ha showing little movement in the last three months. Consolidated land in workable blocks varies from Euro 2,500 – 5,000 subject to location / quality / infrastructure.

“Many view this as better value compared to consolidating land, which may take 2-4 years of sustained acquisition of small plots, which in a rising market may well be difficult to execute,” says Adam Oliver.

He goes on to say that much of the large-scale corporate sector in Russia has suffered disproportionately from the financial crisis. “Many investors entering the market in the last two years have seen other investments require cash calls, while the unit costs of production for the 2008 and 2009 harvests were substantially higher than 2007. Simultaneously 2008 commodity harvest prices fell dramatically from the early highs, requiring many businesses to increase funding to ensure 2009 harvest crops were planted.”

He goes on to say that for a number of investors this has proved unacceptable and, though not widely marketed, there are substantial areas of land being offered to the market at significantly discounted rates. Freehold values (cropped) for fully registered land have come down from c. US\$1,000-2,000/ha in 2008 to c. US\$ 300-500/ha, usually with machinery / work in progress included.

“For those with an appetite for exposure to Russia, there are some genuinely distressed deals available for large scale operating business that have gone through much of the expense and hassle of start up operations.”

In many respects the Ukraine has suffered the biggest crisis of confidence – largely due to its macroeconomic instability. Its agricultural land market remains shallow largely due to three factors; the Ukraine attracted a lot of short-term land speculation during 2008. This pushed prices up dramatically before many realised land acquisition typically only represents approximately 30-35% of the total cash required. Many speculators had no intention of farming the land and have had capital exit from their funds, or are required to make cash calls elsewhere.

“Just the same way as the Ukrainian agricultural market took off during 2008, it has collapsed by summer 2009,” says Adam Oliver. For those with available cash to acquire, businesses holding 15-20 year lease rights can be acquired from zero to Euro 200/ ha subject to location and infrastructure.

#### SOUTH AMERICA

“In South America the land market and farming opportunities remain a relatively well kept secret as far as UK investors are concerned,” says Charles Whitaker, Brown & Co’s head of agricultural business consultancy and overseas operations.

“A combination of lower land values, significantly longer production periods and lower operating costs, together with a long history of registered freehold land title, make Argentina an exciting agricultural investment and a sensible spread of investment strategy to Central and Eastern Europe (climate, economic and political) in any major private, or institutional Ag investment portfolio.”

As in Europe, with steadily rising land values over recent years more land has been brought into production as technology and GM's have steadily advanced the geography of the arable farming sector at the expense of grass land and cattle production. The commodity price explosion in mid 2007 to late 2008 caused further increases in land values, which has now eased. Typically, large areas of arable land capable of achieving 10t/ha of maize are now available at circa US\$5,000-6,000/ha; but there is significant variation between farms offered, characterised by a non-transparent market – as in Central and Eastern Europe and Russia.

Charles Whitaker says 2009 brings major change to Argentina's farmers and with it opportunity. "Export retentions coupled with the drought of 2008/09 and the high production costs of the 2008/09 crop – the rise in global fertiliser markets in 2008 which have now halved – has put pressure on the industry and some sales are now taking place as a result.

"However – with established infrastructure, a well organised contract farming system utilised as the norm on many large land holdings, production costs that have been 50% of those in Europe, and the ability to acquire large land holdings (10,000ha is not unusual) – Argentina should be considered as part of any serious agricultural investment strategy.

"The beef industry has suffered at the hands of the current outgoing Government export policy and large grass fed beef operations, particularly in the north west, are available at \$200-600/ha with scope to generate 15%+ returns, despite beef being little more than US\$1/kg."

Charles Whitaker goes on to say that the majority of Ag investment commentators write off Argentina due to its colourful political past. "Undoubtedly there are aspects of political policy that could be better for the agricultural industry, but the opportunity to acquire large tracts of freehold land, generate sensible levels of profit and capital growth in a climate and culture where agriculture and freehold land rights are respected, and one which investors can enjoy, should be considered to bring balance to any significant European focused Ag investment portfolio."

Charles Whitaker has been active in Argentina since 2005. Brown & Co see the fall of other investment markets as an opportunity to expand their existing agricultural management business interests there through brokerage and management capacity based in Buenos Aires and Rosario with experience in Brazil, Uruguay, Paraguay and Chile.

## Contacts

### Overseas land markets including South America

Charles Whitaker     Brown & Co     +44 (0)7768 465731  
Head of agri bus consultancy and overseas     [charles.whitaker@brown-co.com](mailto:charles.whitaker@brown-co.com)

### Eastern and Central Europe land market

Adam Oliver     Brown & Co     +48 606 418 284  
[a.oliver@brown-co.pl](mailto:a.oliver@brown-co.pl)

### UK land market

Robert Fairey     Brown & Co     01284 725715  
Head of land agency     [robert.fairey@brown-co.com](mailto:robert.fairey@brown-co.com)

Jim Major     Brown & Co     01553 770771  
Managing partner     [jim.major@brown-co.com](mailto:jim.major@brown-co.com)

### PR contact

Sue Jupe     SMJ Communications     01603 614319 / 0780 390 6356  
[sue@smjcommunications.co.uk](mailto:sue@smjcommunications.co.uk)

## Notes to editors

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