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REVIEW:

THE AGRICULTURAL LAND MARKET

Agricultural Economics Society One-day Conference held at the Royal Society in London on 15 December 1989

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1. Introduction

Fifty delegates attended a one-day conference organized by the Royal Agricultural Economics Society (Britain) with the theme 'The agricultural land market'. The speakers focused mainly on the agricultural land market in the U.K. and therefore most of what was said cannot be applied to agricultural land in general. Four broad topics were addressed i.e. : The practice of the agricultural land market; land as a farm business asset; the economics of the farm land market and the social value of agricultural land.

2. The practice of the agricultural land market

The first paper of the conference, i.e., The agricultural land market, was delivered by Dr. John Clayton, editor of the Estates Gazette. This paper gave a general overview of the practice of the land market in the United Kingdom (U.K.). The method of buying and selling land as well as the development of the land market since 1950 were discussed. The methods of how land changes hands in the U.K., i.e. auction, private treaty and tenders also received attention.

The interest of city institutions during the 1980's to invest in farmland led to sharp increase in land prices. Dr Clayton indicated that land prices had a generally strong upward trend throughout the past 40 years.

3. Land as a farm business asset

In his paper on this subject, Prof. Christopher Johnson, discussed the market value of farmland in the U.K., the variables determining farmland values, changing patterns of ownership and alternative economic uses of farmland. Farmland was an exceptionally good investment over the 30 years to 1979. During the 1980's farmland values have been much weaker, until a recovery in the last two years. The increase in vacant land was the main cause of this trend. Prof Johnson also stated that the share of the private sector in farmland ownership continues to be dominant. The share of farmland held by financial institutions doubled to 1.5 per cent (250 000 hectares). Recent evidence shows that farmers have again become net buyers of farmland, with financial institutions and, to a lesser extent, landowners net sellers. There is also a strong net sale to developers. The main points of this paper can be summarized as follows:

- Agricultural land prices in England have risen by about 45 per cent in the last two years, in spite of falling farm incomes.
- The public sector owns 11 per cent of U.K. agricultural and forest land.
- Farmers and developers have become net buyers of land from the financial institutions.
- The increase in the price of land for housing development to a level of a hundred times that of farmland in the last three years have been a windfall to farmers, even though only 0.1 per cent of farmland is used for urban development each year.
- Capital gains tax forces farmers to reinvest development gains in farming which has helped to raise agricultural land prices.

the real total return on farming equity averages zero, but farmers are getting more income from other sources, such as food, tourism, consumer goods and services and property development.

4. Economics of the farm land market

This paper, by Prof. David Harvey, reviews the basic theory of the land market, examines contemporary empirical research and deal with the consequences of agricultural support on land values and the implication of the removal of land from agriculture on farmland prices.

Prof Harvey stated that agricultural market conditions clearly affect the farmland market. In turn, farmland values play a major role in determining the allocation of rural land between different uses. The higher farmland prices are, the more difficult it is for non-agricultural uses to compete with agriculture for the use of land. Decisions about set-aside, forestry and other alternative uses must all take account of the value of land in farming. Such decisions raise the question of the extent to which the market price of farmland is a reasonable reflection of the social opportunity cost of land. Given that land prices are dependent on farming returns, and given that these returns depend on the support provided to the agricultural sector through the Common Agricultural Policy, it is clear that land is likely to be "over valued" in agriculture compared with its value under free market conditions.

To support the above statement a working model of the relationship between land prices and farming returns was developed. The results of this model suggest that land prices are 46 per cent higher because of current support policies and that 55 per cent of these policies is captured by landlords.

The results of the model further shows that the removal of land from agriculture will increase the value of the remaining land (removal of 100 000 hectares of crops and grassland in the U.K. would raise land prices in real terms by 2,7 per cent).

In conclusion, Prof Harvey said that a lot more work need to be done on a fully specified and reliable model of farmland price formation.

5. The social value of agricultural land

In the last paper of the conference, Dr. John Bowers examined the reasons for the market failures in the market for agricultural land. In order to do so he explained how agricultural land values are determined. In the second part of his paper Dr. Bowers identifies the sources of market failures and the biases to land values that they impart.

He also addressed the issue of property rights and stated that even if we can decide on the issue of property rights and thus on the direction of the deviation of land values from social optima, the problem of determining the extent of deviations remains.

Dr. Bowers concluded by saying that an undervaluation of land as a result of constraints on the ability of the landlord to exact rent is necessary for the success of current agricultural policies

including those elements directed at environmental conservation. He also emphasized that land values are inflated by agricultural support.

6. Conclusion

The first two papers were directed specifically at the U.K. land market, discussing the development and operation of this market. The last two papers focused on the theory of the land market and gave a general overview of the land market, not only in the U.K. The message the conference conveyed most strongly is that land prices are high mainly because of high levels of agricultural support.

7. List of papers

BOWERS, J. The social value of agricultural land.

CLAYTON, J. The practice of the agricultural land market.

HARVEY, D. The economics of the farm land market.

JOHNSON, C. Land as a farm business asset.