FARMERS AND PENSION FUNDS

IS THERE A CONFLICT?

Peter Hudson

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WITH a slight decline in house prices and lower building land prices in some areas in 1974 compared with the previous year, what are the prospects for agricultural land prices this year? Viewed historically, farm prices fluctuated within fairly close limits until 1957 but rose at a rate of 17 per cent per annum until 1964. The rate of increase then slowed and prices actually fell in 1970. The fall, however, was short-lived and by the following year the upward trend continued with prices doubling in 1972. The rise continued in 1973 and earlier this year were expected to increase still further.*

Just how much does it cost to buy good agricultural land? Information now available shows that the median price paid for all farms in 1973 was £800 an acre (farms over twenty-five acres) with some agricultural land in the south-east costing over £1,000 an acre. The lowest prices paid in 1973 were in Wales where the median was £542 representing only a 4.6 per cent increase over 1972. The highest percentage of increase, however, was a dramatic 64 per cent for acreage in the East Midlands. But increases in land prices are no longer news. What is more significant is that more institutional buyers are moving into the agricultural land market. According to the Country Landowners Association, 26 per cent of sales for the year ending October 31 1973 were to institutions. With probably £2,500 million to invest in 1973, life assurance companies and pension funds were looking for new fields of investment and some of them no doubt saw considerable advantage in placing part of their revenue in farm land. After all, agricultural land may not be a high yield investment but it is a secure one with considerable prospects for capital appreciation over the long term.

Although many institutions have traditionally had some holdings in real estate, particularly in urban redevelopment either through direct participation or investment in property companies, the move to agricultural land is new. It is unlikely that a large portion of receipts will be invested in this way, but the buying power of the institutions can exert considerable effect on the limited market. In fact, resentment has arisen from some sections of the farming community who claim that the institutions are bidding up prices to unrealistic levels. Most of the institutional buyers, it seems, are not interested in farming themselves, but rather are purchasing land which is already let or making purchases with a lease-back arrangement. With the faith in equities declining, this trend might continue.

One writer has pointed out that perhaps more than half of the prices currently being paid for farm land are attributable to factors other than the yield from cultivation. The hope of planning permission at some future date, the attractiveness of capital gains and estate duty concessions and the availability of long term loan capital all tend to make agricultural land a secure long term investment. One of the questions which arises from the activities of the institutions is whether their entry into the land market is in the long term interest of the country as a whole. In some ways the answer will depend on how the institution-owned farms are managed. It has been argued that there is much to be said for the small independent farmer and his very personal interest in his holding. The advent of the institutional land purchasers with their enormous buying power will obviously make it more difficult for would-be individual farm purchasers to enter the market for the first time or for established farmers to purchase additional land for expansion. There is therefore a danger of a new and powerful large landowning class being created in the countryside just as there has in many city centres. We can see an emerging picture of institutional land owership replacing or competing with the great private owners both in town and country. Assuming that the land purchased by the institutions is put to its highest and best use, there

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* **Prices from *The Farmland Market*, a new publication on trends in farm price published by *Estates Gazette* and *Farmers Weekly*.**

would seem to be no economic disadvantage from the production aspect. Unfortunately, however, even if this is so, there is a very real economic disadvantage in terms of wealth distribution.

Under our present land tenure system, the true economic rental income from land is taxed only indirectly with the consequence that land prices are relatively high and only the very powerful and wealthy can easily enter the market. The effects of a "dear land" system are inhibitive to expansion and to the entry of under-capitalised innovators who are already faced with the highest interest rates in modern history. If the objective of the nation is to encourage a more buoyant productive economy with a more equitable distribution of wealth, then the invisible barrier to economic expansion needs to be removed and this can readily be done by changing the taxation emphasis from income and capital, to the rental value of land. The force of the direct land tax, proportional to the real annual rental value of land (excepting all improvements) would reduce the selling price of land by an amount equal to the capitalised value of the tax *without in any way reducing the returns of labour and capital or the incentive to use them.* Nor, since pure Ricardian rent does not enter into costs of production, would the prices of farm produce be affected. The land-value tax would cut the farm problem knot with a scissors-like action — one blade cutting the land price and the other cutting the speculative element in land price, confining rewards only to the efficiency of management and the use of capital. It would undoubtedly help to disperse rather than concentrate land ownership and would open the door to initiative and enterprise while shutting it to the speculator.

It is very easy to understand institutional investors' attitudes at the present time. With interest rates on short term loans exceeding expectations of future yields from productive equities, real estate of all kinds becomes more attractive. The danger, however, lies in the artificial bidding-up of land prices. Already a slight down-turn has been witnessed in building-land prices and in the price of new houses and one newspaper has claimed that some new homes are being offered for sale at below cost figures to avoid the continuance of heavy interest payments on short term money used for site acquisition and construction. Although the institutions do not have a major influence on housing land, their footing in commercial and agricultural real-estate markets has the makings of embryonic monopolistic influences. The institution's actions, of course, are viewed as being in the best interests of their policy holders and shareholders but the benefits to these groups in the long term could well be outweighed by detriment caused to the economy as a whole. What happens, or more importantly, what does not happen on the economy's margin, affects the competitive spur to continued growth. It is sad that the cash which the institutions are so capable of feeding into economic growth streams are now starting to go in directions which might ultimately be contrary to everyone's long term economic interest.

A strong dose of land-value taxation now would set a new direction in economic expansion, provide real rather than paper funds for government expenditure and turn the tide against the purely speculative investment in agricultural land. The would-be small farmer's chances for success would then be far greater than they have been for many years.

Farm Land Sales and Prices

THE LATEST land price survey produced by the Country Landowners' Association reveals that prices have fallen substantially, that virtually no tenanted land is currently being purchased and that financial institutions are not at present investing money in land.

The survey shows that during the three months ending 31st July, 1974, there were insufficient sales of land without possession to calculate any trend of average prices. During the period only 2,000 acres of land in the sample changed hands compared to 15,000 acres at a similar time last year.

The amount of land purchased by institutions as opposed to private individuals or family trusts was less than 1% of the acreage in the sample compared with 35% in the corresponding quarter in 1973.

This quarter the survey analysed 170 sales which covered a total of 16,000 acres.

Lowland sales with vacant possession returned an average of £700 per acre. Where hill land was concerned there was a total of 11 sales involving 1,041 acres at an average price of £306 per acre.