Abstract

The main agri-trends in North America, Europe and Australia are being followed closely in various regions of South Africa. One such trend is on land-use changes; the fact that some investors purchase farmland in South Africa to not farm – for the sake of investment only. Research that was done in 2011 in the south-eastern Nama Karoo confirmed that purchasers do indeed buy farmland at significant prices primarily as investments, although not on a grand scale. The research was done on a quantitative and qualitative level – seminars and questionnaires (quantitative), and personal interviews (qualitative). It was confirmed that in this part of the Nama Karoo, like in many other parts in South Africa, there is indeed a trend of new investors purchasing land for its sheer beauty and natural magnificence, something that they believe will increase in value and which is a sound investment for the future. The question was also asked: How might this impact on value of farmland in this region and how will property valuers interpret this changed land use? And, how should farmland be valued or valuated in future if this trend prevails and expand? The research confirmed that investors buy farmland not for primary agricultural production on a commercial and profitable sale, but for other secondary reason, which result in land prices almost double the average –which is not a unique South African trend. Pure investment is a primary driver in the decision making process and is based on a view that the future capital growth is enough to justify the investment. It was also shown that the typical investor is around
50 years old, financially extremely well off, and mostly professional. As potential non-commercial farmers, they are also not necessarily applauded by current commercial farmers. It finally became evident that traditional ways of farmland valuation will not suffice in future if this trend in changed land use prevails and that new approaches to farmland valuations should be considered.

**Key words**: Land use change, farmland, farmland valuation, farmland value, natural beauty, farmstyle living, investment, landscape, visual appeal, natural habitat, scenic beauty.

## 1 INTRODUCTION AND PROBLEM STATEMENT

It almost goes without saying that farmland gets bought for farming. Why else would we call it *farmland*? Several issues about the very nature of farmland were recently researched in a part of the Nama Karoo, because it is true in other parts of the world and of South Africa that a new generation of investors, are purchasing farmland not primarily for commercial farming, or not to develop either – as a matter of fact not to do anything in particular on it. In doing so they believe that their investment decision will perform as good as other investments like gold, money markets and traded shares.

Should a trend like this become common practice and should it become true that substantial portions and hectares of land get taken out of the agriculture realm one could start asking some further questions:
What could be the possible impact on a specific farm’s value and what could be the impact of the value of such farmland on farmland value in general?

How would such farmland be valuated in future by professional valuers?

How should financing institutions respond to a development like this?

The value of farmland, and also the valuation of farmland, is not a simple matter. The valuation of farms is fast becoming a very complex process of understanding a whole new range of value elements, land use changes, amenity values, and deeply personal growing convictions amongst a new generation of landowners about the value, attributes and meaning of land in general, and farmland specifically.

In the past and to the present day the valuation of farms was and is based primarily on the production value of farmland and the commercial return that can be extracted from the farm with optimised farming activity, and the resultant market value. This situation highlights and accentuates several problematic areas like the valuation of a farm where that farm is used only for personal enjoyment and not for agricultural production reasons, or establishing the value of a farm, which is not farmed or improved or utilised for farming, or even formally defining the value attributes that landowners confer on farmland as well as the incorporation thereof into current valuation methodologies.

According to Reed and Kleynhans (2009: 324) agricultural land valuations are becoming increasingly challenging due to changes in land characteristics classification and land-use
options. The more classic, and now almost traditional approach to valuations is based on market value and comparative sales, but also substantiated by the productivity of farms, a feature, which is financially measurable and directly related to the property's income-generating capacity; a confirmation of a farm's standing with other comparable farms.

To further accentuate the value of agricultural land the recent worldwide recession from 2008 to 2010 dispersed a lot of wealth in a general sense because of a sharp, albeit temporary, decline in residential and commercial real estate values and a stock market meltdown (Painter, 2011: 396). However, Painter's research, mainly in the northern hemisphere, indicated that farmland seems fenced from this to a certain extent (Painter, 2011: 396). It seems necessary to establish whether this truth applies to farmers and farmland in South Africa.

In some areas of South Africa, it looks like farming has already reached the stage where the price of land is more than what may be farmed within the capacity of the land (Kleynhans & Opperman, 2005: 497) – a common phenomenon in an agricultural environment. This translates into an untenable reality that it becomes impossible for a farmer to pay back the cost of the land within a limited period of time, in addition to making a profit from farming. Yet the demand for land is not diminishing and more and more potential buyers vie for less and less land that is offered for sale. Demand exceeds supply and prices remain bullish.

In spite of all this the valuation of agricultural land was and still is restricted to commercial or production value; the value that is linked to the production potential of a farm combined with the relevance and nature of supporting infrastructure on that land. Painter (2011: 397) reasons and proves to a certain extent that investment in agricultural land, under certain predetermined circumstances, can indeed be compared to investment in gold or gold shares.
1.1 Research Approach

How was the research done?

The inevitability of both a quantitative and a qualitative research approach was evident from the outset. It was unavoidable to embark on the very demanding route of providing information to prospective respondents through some seminars in the towns of Steytlerville and Willowmore combined with the process of completion of questionnaires probing about whom the investors are, what the main motivators for their financial decisions were, and why they were paying for the land what they paid? In addition the responses had to be clarified and further explained by a series of personal interviews with as many of the subjects as possible.

The results were an astounding confirmation of postulations and hypotheses, and early on it was clear that South Africa is indeed following similar trends in North America, Europe and Australia.

2 LITERATURE EVALUATION

Kleynhans and Opperman (2005: 507) confirmed that, amongst other attributes, aesthetically
attractive natural landscapes are associated with land price increases, and although difficult to really get a grip on, valuers will have to study the influence of aesthetic beauty and natural or environmental heritage, on the value of farmland.

It is the opinion of Adams and Mundy (1991: 48) that the public believe that natural habitat farms, under certain circumstances, have significantly higher and better use than certain commercial-economic alternatives. This may pose problems for valuers since the challenge remains, as is the case with this research, how to qualify, and even quantify this non-commercial-based value. As a general rule this research set out to show that the income capitalisation method of valuation, as well as other economic based valuation methods is not applicable to natural or non-producing farmland either.

The assessment of landscape and aesthetic appeal is becoming a highly scientific process where different models of valuation based on psychophysical and surrogate elements are blended together and materialised into valuation techniques that make use of additional statistical skills to determine the mathematical relationships that exist between landscape components and the scenic preferences of observers (Arriaza, Ca–as, J. F., Ca–as, J. A., Ruiz, Gonz‡lez, & Barea, 2005: 1). Landscape or visual appeal is one of the most salient components of what is valued outside the commercial domain, together with natural habitat and scenic beauty.

It is not surprising that Doye and BrorsenÖs (2011: 16) research confirms that landscape features and natural habitat are becoming increasingly important for buyers of undeveloped farmland. This accords with a similar research, which found that farmland amenities or public goods are non-exclusive; i.e. accessible and to be enjoyed by all; and also non-rival; i.e. the
one person’s enjoyment does not diminish another person’s gratification (Irwin, Nickerson & Libby, 2003: 21; Libby & Irwin, 2003: 1) hence more value. Since farmland value, inclusive of amenity value, dwarfs other asset values in agriculture production, the understanding of insight in the formation of farmland prices should command high research priority (Ervin & Mill, 1985: 938). Research should go on far beyond what was confirmed in this study.

The possibility that city-based wealth find investment opportunities in the platteland is neither farfetched nor impossible to comprehend. Most, if not all of the wealth in some areas, invested in farmland, where natural beauty is an overwhelming motive for investment, come from cities and bigger centres where wealth could be accumulated rapidly over short periods of time.

In South Africa the trend that the deep platteland is economically dwindling and becoming under pressure, may not be true entirely or it may not be the full picture of the status quo. In reality it is possible that it is only cash that is being spent elsewhere – in bigger centres. Although life is still rewarding in these areas, money is basically exported to the cities and services are imported at a premium, hence the relative impoverished situation. The scarcity of farmland, especially in the deep rural areas, is possibly becoming one of the major reasons for the sharp and sustained increases in farm prices and a growing concern for government.

2.1 Rural Market Changes Nationally and Internationally

In the last two or three decades there was a noticeable cognitive shift in the way people comprehend and respond to environmental surroundings (Adams & Mundy, 1991: 48). In some or another way these changes in habits and behaviour amongst populations deposit itself in
noticeable changes in the economy and socio-economic realities; it has unmistakable monetary value. Although some of these are driven or determined by the value of natural resources such as gold and gas and oil in the northern hemisphere, and an increasing awareness of the land’s utility, aesthetic and emotional context and elements are also taking effect.

It may be concluded that farmland is the only classification of property that cannot be increased by area or availability, and it faces a diminishing future mainly due to industrialisation, urbanisation and changes in land use legislation. Mathews and Rex (2011: 41) record similar findings in North Carolina and all-over the USA, more specifically in Iowa, substantiated by the United States Department of Agriculture (USDA, 2011: online). Here it should be noted that farmland prices just recently increased more than inflation, for the first time in recent history.

Higher farmland values and the diminishing availability of farmland as such are causing a strong leaning and tendency towards the preservation of land almost across the globe and especially for the conservation of localised benefits like open space, environmental quality, and impediments to urban sprawl (Plantinga & Miller, 2001: 56; Shi, Phipps & Colyer, 1997: 90).

In spite of the fact that farmland historically has been valued for its capacity to provide food and raw materials, public concern and interest has shifted from food production to protecting and enhancing quality of life and quality of the countryside landscape (Henderson & Gloy, 2011: 18). If this is anything resembling a trend, it might add momentum to even higher land prices and adjusted land valuation methodologies in future.
2.2 Agricultural Land Valuation Principles

The traditional approach of commercial and production value as a basis for farmland valuation may create the impression that it is the only available valuation method – this research will attempt to confirm same.

As a professional land valuer, Gwartney (2012: online) speaks eloquently about the value of (farm) land:

*Land, in an economic sense, is defined as the entire material universe outside of people themselves and the products of people. It includes all natural resources, materials, airwaves, as well as the ground. All air, soil, minerals and water is included in the definition of land. Everything that is freely supplied by nature, and not made by man, is categorized as land. Land holds a unique and pivotal position in social, political, environmental and economic theory. Land supports all life and stands at the center of human culture and institutions. All people, at all times, must make use of land. Land has no cost of production. It is nature’s gift to mankind, which enables life to continue and prosper. Land’s uniqueness stems from its fixed supply and immobility. Land cannot be manufactured or reproduced. Land is required directly or indirectly in the production of all goods and services. Land is our most basic resource and the source of all wealth* (Gwartney, 2012: online).

This sums up a lot of value elements and additional values that need to be taken into consideration when attempting to establish or verify the value of a certain piece of land. People see value and look for value in unexpected ways, and are prepared to pay for it.
Various approaches to farmland valuation models currently utilised are all related to comparative farmland value and its inherent ability to produce and economic yield; Comparative Model employing Market Value, Commercial Value, Production Value, and the Growth Model acknowledging the Investment Value and Capital Gains Value of the land, and Option Value, or also described in literature as Personal Value or Hedonic-Aesthetic Value or Pleasure Value.

2.2.1 Highest and Best Use

Disagreement persists among traditional and contemporary thinkers, researchers, valuers and students over the meaning and execution of highest and best use (HBU) analysis in valuation of farmland (Wilson, 1995: 11). The discourse is also not something that will disappear immediately since it is the nature of the valuer’s profession to not accept one single approach for all circumstances and situations, although valuers are sometimes inclined to default onto farmland valuations based on market or commercial value, and then validated by the comparative sales model.

Reed states that valuers, although information about amenity value and natural attributes might be available, do not make use of the information or are not equipped to translate the information into adjusted HBU interpretations:
Analyses of valuation reports as well as interviews with valuers and buyers indicated that valuers continued to emphasise mainly traditional agricultural characteristics associated with production in the valuation of farms bought for lifestyle purposes. They concentrated on measurable characteristics and valuation reports were dominated by attributes associated with the agricultural potential of farms. This avoidance of lifestyle attributes or vague descriptions left valuers in a vulnerable position, as they struggled to balance agricultural and market value based on market sales comparisons. Most comparable sales used were those of agriculturally productive farms and focused on value attributes such as the extent of permanent crops, number of arable hectares, topography and improvements such as irrigation infrastructure. Valuers concentrated on measurable characteristics that could be expressed in monetary terms (Rand per hectare) and assumed the typical buyers of these properties to be farmers (Reed, [n.d.]: 6).

3 RESEARCH RESULTS AND INTERPRETATION

During February 2010 a farm in the Steytlerville district of just more than 3000 ha, not a very big farm, but sizeable, was sold for R3 863/ha. Landowners in the area will, and do confirm that there are no means or possibility of any type of farming or agricultural activity that can possibly repay this investment out of farming activities in this specific area.

The conclusive finding was that some investors (they cannot be called anything else) are prepared to pay as much as 150% more than the average price for good farmland in a specific area only to engage in farmstyle living and not lifestyle farming, as many people would describe it. Their primary motive, we found, is investment combined with preservation of the inherent natural beauty and scenic appeal of the area, and this notion is coloured with a hint of
3.1 Notes on Demographic Information

The information that was recorded within the first part of the questionnaire relates to personal and demographic information of the respondents. The following is a summary of this information:

- The average age of the respondents is 53.7 years. In a similar study conducted by Reed and Kleynhans (2009: 331) the average age was found to be just below 50 years.

- Twelve (52.1%) of the respondents own the land in a personal capacity and the balance represents a company, close corporation or a trust. The original number of 70.3% of ownership being legal entities confirms the challenge to reach representatives of legal entities. There was a level of compromise to accept the fact that many of the owners or representatives of legal entities were not going to be reached in time for the surveys.

- Nineteen (82.6%) of the respondents live on the land.

- Seventeen (73.9%) of the respondents are professionally qualified.

- All but one, are married with antenuptual marriage agreement (out of community of property).

- Only three respondents indicated dependents. Presumably the question was interpreted as...
living-in dependents.

One respondent holds a foreign passport.

### 3.2 Notes on Farms and the Price of Farms

A total of 247 titles were transferred in the research period from 1 January 2005 to 31 December 2010, but it was reduced to 145 titles under research; 77 in the Steytlerville district and 68 in the Willowmore district. The average price of land in the two districts was R1 487/ha over the period, with the highest price paid for a larger farm where two combined titles with a total area of 3 585 ha was R3 863/ha. This price is more than 159% the average value of land for the region over the period researched (table 1).

Almost a decade ago, when averages for farmland prices were still available, the average price of farmland in the Eastern Cape for farms larger than 500 ha varied between R935/ha and R720/ha, with an average over the whole spectrum of land sizes of R1 100/ha (Aliber & Mokoena, 2003: online). It would have been an ideal situation if it was possible to compare these figures with more recent figures as well as to compare the figures from the research with current market prices in other districts in the Eastern Cape or in other ÒcomparableÓ areas. Such a luxury is however not possible anymore according to agricultural economist Prof Johan Willemse of the Department of Agricultural Economics of the University of the Free State, since the statistics of farm sales per district per year and the trends and
tendencies on farm prices are not available in the public domain anymore anywhere in South Africa, not even from the Central Statistical Services (Willemse, 2012: personal communication; Griffiths, 2012: personal communication).

It could be predicted that when normal valuation methodologies are being applied to arrive at a value for this specific farm, the valuation would probably end up close to R2 000/ha assuming it to be an exceptional piece of land. However, a value of more than double the average has to be driven by other values that come into play – non-commercial values. Observe the following information.

Table 1 - Land Price Information 2005 – 2010

<table>
<thead>
<tr>
<th>Total Value of Sales (R)</th>
<th>Total area of land (ha)</th>
<th>Average Rand per hectare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steytlerville</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Willowmore</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>67 442.30</td>
<td></td>
</tr>
<tr>
<td></td>
<td>65 628.82</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 028</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>172 685.20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>116 109.87</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 487</td>
<td></td>
</tr>
</tbody>
</table>
It is important to emphasise that the average price of sales over the period of research varies greatly from as high as R15190/ha for a portion of 121ha in 2006 to as low as R428/ha for a 2
A farm of 363 ha in 2008 (Note: The transaction with higher price were excluded from data since the piece of land does not comply with the research guidelines adopted). This of course doesn't mean much since it is common knowledge that larger farms, as a rule, fetch lower prices per hectare and smaller portions significantly higher prices. The importance is that the average value of just under R1 500/ha is still a strong indication of the current price of farmland in the subject area. Many "for sale"-farms in the area are offered at significantly more than R2 000/ha and even as high as R5 000/ha.

Another notable piece of detail is the fact that the 116 000 ha that were researched represent about 4.6% of the total area of the study area.

### 3.3 Consideration of Decision Making of Landowners

Literature indicates specific potential drivers or motives, which urge farmers to engage in buying farmland. Economic, investment and lifestyle values that farmers may have for land are prominent, but some studies combine these approaches to determine if empirical evidence can be found to support a clear distinction between economic, conservation and lifestyle values with landowners (Mayberry, Crase & Gullifer, 2005: 64). In a study conducted by Henderson and Gloy (2011: 20) it was found that the most prominent factor to influence respondents' landscape preferences was environmental orientation.

Hedonic pricing method (HPM) research on rural properties focuses mostly on the contribution
of agriculturally productive characteristics having an influence on the price of the property (Xu, Mittelhammer & Barkley, 1993: 356; Maddison, 2000: 519). The HPM-technique, however, requires large datasets, which limits its application for agricultural land prices, but certainly does not render it useless. At the same time the diverse nature of farmland is difficult to capture within a limited regression model (Isakson, 2001: 424), while land prices tend to be area specific (Shi et al., 1997: 90).

It should be noted below that some of the respondents in some instances selected two options in the questionnaire producing a higher response than the number of respondents. These responses were not altered. On the weighted questions, table 3 and table 4 the totals reflect the total of the weighted answers and are then reduced to representative percentages.

3.3.1 Primary Buyer Motives (PBM)

Primary buyer motives are the essential reasons providing the tipping decision-maker motives for purchasers to conclude a transaction at a specific price.

Table 2 - Primary Buyer Motives

<table>
<thead>
<tr>
<th>Motives for Purchase (weighted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial farming</td>
</tr>
</tbody>
</table>
Boutique farming 19.07%

Game & lodging 11.00%

Hospitality 10.27%
<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>24.21%</td>
</tr>
<tr>
<td>Personal enjoyment</td>
<td>23.47%</td>
</tr>
<tr>
<td>Other</td>
<td>0.49%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>409</strong></td>
</tr>
</tbody>
</table>
This is in line with research by Henderson and Gloy (2011: 2), which confirms a reduction in commercial farming as a motive for buying land. There could be many more PBMÔs than what were included in the research questionnaire; however the list shows a confirmation that the primary motive remains investment and only slightly more important than personal enjoyment. It seems extremely noteworthy that, although farms are purchased as investment as well as commercial farming opportunities, there is a very important undertone of personal pleasure in and enjoyment of the natural amenities on farmland in the Nama-Karoo. This was expected, but for the fact that there is little difference between investment (22.43%), personal enjoyment (21.64%), and commercial farming (19.53%) – a mere 2.9%. These three PBMÔs are responsible for 63.6% of motivation for buying farmland in the subject region.

3.3.2 Secondary Buyer Motives (SBM)

Secondary buyer motives are exactly the same as the primary buyer motives, but specifically ranked as reasons that functioned as a secondary driver or co-decision-maker in the original transaction.
Table 3 - Secondary Buyer Motives

<table>
<thead>
<tr>
<th>Secondary Motives for Purchase (weighted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial farming</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Boutique farming</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Game &amp; lodging</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Hospitality

50

13.19%

Investments

85

22.43%

Personal enjoyment

82

21.64%

Other
Respondents noted very much the same order of motives for buying, but for the fact that those motives pulling up the rear; hospitality, game lodging and boutique farming scored a combined 36.41% as compared to 32.76% as primary motives, ever so slightly higher. This corresponds with information derived from respondents during personal interviews where some confirmed that should the opportunity arise, there might be strong consideration for going into the hospitality market or even game farming. Henderson and Moore (2006: 597) found that wildlife recreation has emerged as an increasing influence affecting U.S. farmland as farmers capture additional income streams from wildlife recreation, especially in pristine and unchanged or unimproved areas. This is obviously true to a lesser or greater extent in South Africa, and also in the Nama Karoo, the subject area of this study. Although none of the respondents indicated that the land was specifically bought for game farming, one respondent indicated hospitality as a main motive and several others as secondary motives.
3.3.3 Investment Importance

Investment importance is, different from buyer motives, the overall importance of consideration of investment as safe haven for the substantial amounts of money that were paid for farmland in the region. The outcome was a confirmation of trends identified during informal discussion with landowners.

Table 4 - Importance of Investment as a Motive for Purchase

<table>
<thead>
<tr>
<th>Secondary Motives for Purchase (Weighted)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>73.91%</td>
</tr>
</tbody>
</table>
High

6

26.09%

Medium

0

0.00%

Low

0

0.00%

Very Low

0
It comes as no surprise that all respondents regard investment as either a "very high" or
ÔhighÕ motive for purchasing land. This furthermore translates into a reasonable deduction that landowners believe that investments will be redeemed over time, irrespective the price of the land, albeit sooner or later and either through farming or capital growth or both. This is further confirmed by the interesting response on landownersÕ preparedness to sell (table 8) where more than 60% of the respondents actually indicate that land will never be sold – even though ÔneverÕ seldom means never. It simply means that there is definitely no deliberate purchase for speculative purposes – the main motive is to keep the land for a long time.

The value of investment in farmland is emphasised in no uncertain terms by Painter (2011: 396) in a study from North America indicating that under certain circumstances investment in farmland may perform similar to investment in gold. Apart from many elements in the research, Painter makes the point of the limited offer of farmland combined with the increased demand for such land and the exponential impact of food burdens in the distant future – a situation that will Ônever improveÕ and continue to put upward pressure on the value of farmland and its attractiveness as an investment option.

3.3.4 Other Detail from Research Data

It was necessary, for the sake of transaction verification, to try to authenticate the nature of each transaction as well as the reasons for the seller to sell the land in the first place. Only bona fides transactions were researched.

The results noted are merely a confirmation of the armÕs length nature of the transactions. The majority of the sales were as a result of a good, irresistible offer made to the seller having offered the farm for sale, and another just more than 50% sales were derived from people who had to get rid of the land either through age or incapacity (20.69%), drought (and presumably subsequent hardship, 20.69%), and deceased estates (10.34%). The fact that 29 responses
were noted (not 23) simply means that some respondents indicated more than one reason at work on the part of the seller; presumably a combination of 'Age/incapacity' and 'Irresistible offer'.

The choice of finance partly indicates the structure of a transaction and provides information about the relative affluence or wealth of the buyer. Since a significant number of transactions (56.67%) were concluded in cash payment, it translates into millions of rands that were invested in the area – money that presumably were not earned in the agricultural industry.

It is rather surprising that more than half the respondents (56.67%) purchased land by paying cash. Reed and Kleynhans (2009: 330) in a similar study found that almost 92% of respondents do not depend on farming for an income and have other sources of income to fund their lifestyle. This confirmed, to a large extent, the expectation that many people buy farms in these areas because the buyer wants it and can afford it.

Selling motives, of the buyer, attempts to identify the potential of speculation and short-term trading motives on the part of the buyer. It could have been possible that some of the buyers got hold of the land below market value, although highly unlikely, and that it could urge owners to on-sell the land to a more affluent buyer within two or three years after the purchase. This notion seemed to be non-existent. It is important to note that more than 90% of respondents do not have the slightest inclination to immediately sell the newly purchased land.
The expected yield on investment is the subjective opinion of the landowner about the expected growth on the investment made in the land. The results were surprising, if not optimistic.

Respondents clearly have a very high, and almost unrealistic expectation of growth on investment since more than 95% expect a year on year capital value improvement of more than 10%, with more than 80% expecting a yield higher than 15%. During interviews it was apparent that this opinion was based on investor and other financial advice.

The above figures indicate a strong guidance by other investors, advisors and auditors (a total of 54.17%) towards the land purchase. During interviews it was established that ‘Other’ was interpreted as ‘Self’ where people just bought the land based on their own instincts, experience and preferences. This latter figure confirms that the transactions were in general not overwhelmingly subjective, personal and irrational.

3.4 Interpretation of Buyer Behaviour and New Value Elements

The deductions that can be made from the results derived from the questionnaires indicate a buyer propensity towards additional values attached to farmland, since buyers buy for investment purposes, to not sell ever again, and paying cash in many instances. It appears to be a matter of ‘I want it and I can afford it and I will have it, whatever it costs’.
The typical non-farming investor is a person who may be spearheading a new generation of landowners who are more concerned about the natural beauty of a farm than its productivity; prepared to preserve its natural amenities as investment shelter, rather than extracting the optimum yield from the soil. These investors place a higher value on preservation than production, and are more focused on long-term growth than short-term output; land security takes preference to food security, and natural amenity to commercial productivity.

It is known that the valuation of scenic beauty and cultural heritage is notoriously difficult and challenging (Mathews & Rex, 2011: 40). These and similar elements of value are however becoming more and more important to arrive at a real value of a piece of farmland, especially where such a piece of land is unimproved, undeveloped, and relatively in pristine natural condition in addition to not producing a steady income. In their studies Mathews and Rex (2011: 42) wanted to come up with a dataset of multiple sources of farmland values including scenic beauty and cultural heritage and research indeed added numerous values not previously incorporated (Mathews & Rex, 2011: 42).

**Scenic beauty and cultural heritage** summarise the elements that are really important in the subject area. Many of the respondents indicated, not only in the questionnaires, but also during interviews, a strong opinion that the Karoo, more specifically the Nama Karoo, is "the most beautiful place on earth." Such opinions are subjective by nature and perception driven, but strong and convincing nonetheless.

It was suggested by Kallas, G—mez-Lim—n & Arriaza (2007: 406) that the use of multifunctionality valuations may have more advantages than shortcomings, since it involves the joint valuation of all the externalities generated in the production or offering of agricultural commodities and amenities. Obviously the monetary valuation technique should be preferred since it relies on the same theoretical axioms as those that underpin consumers’ decision process, subjective as it might be (Kallas et al., 2007: 405).
### 3.5 Possible Valuation Adjustments

What could be the structure of a future farmland valuation approach?

If it is true that there are additional value elements present in a specific piece of farmland and that these could be identified and measured, then it should be brought into the calculation of the value. The following could be a typical valuation structure, providing it is understood that the contribution of other value elements needs to be verified and measured for its relative weight. A valuation structure of this nature may not be acceptable or palatable for financial institutions, but its function is to illustrate how new possibilities of valuations should be explored. The introduction of new value elements and the valuation methodology thereof is done with due respect to the professional valuers in the industry. (Note: The figures below are fictitious and are being used only to provide a structure of a valuation for farmland where additional value elements are being included. It should also be understood that the additional value elements can only be included and valuated if proper research are performed in order to verify its nature and weight.)

Table 5: Possible Structure for Future Farmland Valuations

<table>
<thead>
<tr>
<th>ITEM</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Production value

1 000 000
**Marketing value**

1 200 000

**Adjusted value**

1 100 000
Improvements & infrastructure 30%

Sub-Total

1 300 000

000
### Additional value elements

<table>
<thead>
<tr>
<th>Scenic beauty and natural appeal</th>
<th>17.5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>227 500</td>
</tr>
</tbody>
</table>

| Investment opportunity |  
|------------------------| -- |

---

---
(Wessels, 2012: own table)

3.6 Conclusion
The fact that there are indeed buyers who would pay startling prices for appealing farms, that various buyer motives for farmland exist, which were not necessarily active 20 years ago, that some modern farm owners really do not purchase farms for farming, and that the way in which farms were used to be valued previously may not be valid anymore, are confirmation enough that the general situation surrounding farm values and valuations have changed and are still changing.

The observation that new value elements and assessable natural amenities are being brought into the general usage of farmland is as such not something that started to occur in the last decade. It was noted and documented by researchers several decades. Only recently, during the last decade or two, since the 1990s, did researchers and exponents of the industry start to call for new ways to look at HBU and accompanying alternative valuation methods.

Farm values in the subject area derived from commercial and production value is strictly based on the land's capacity or inherent ability to sustain livestock. Naturally the carry capacity in the study area is not great and the figure used in the calculations below (table 6) is based on information supplied by the local Agricultural Associations.

Table 6 - Traditional Calculation Principle

| Calculation of productive value of farmland | 40 / 47 |
Farm Area

3,428

ha

Carry capacity

0.165

SSU(1SSU/6.06 ha
Optimum stock level

565.62

SSUÕs

Production per year (90%)

509

Gross income per year (R1100)
Nett farm income

R589 600

Average cost of capital

9%

Productive value of farm

R6 551 111

R1 911
Less value of livestock

R1 117 920

Less value of equipment

R750 000

R219

Nett productive value

R4 683 191

R1 366
It was found that tried and true methodologies for farmland valuation based on commercial values and production data simply cannot do justice to a growing tendency of lifestyle farming and hedonic value purchasers. The calculation method in table 6 above, although based on realistic assumptions as far as the value of equipment and the ÔcurrentÕ price of lamb is concerned (an average of R51.00/kg for the research period), reflects the value of a real farm in the study area with a real situation and real carry capacity. The estimated value is on par with the average value over the last six years.

However, individual farms sell at more than R3 000 per hectare and these farms are not, as indicated above, bought for farming purposes.

These new farm owners are wealthy, professional, independent of commercial farming, and quasi-conservationists. Collectively these buyers add a real and permanent value to land that was not attached to land before and will probably become more and more part of land valuation in future, according to trends and tendencies in other parts of South Africa and the world. Farmi
ng is no more a traditional family affair and will increasingly be less accessible for the staple farmer and his family. Agricultural activities are indeed a calculated and high rated investment driven by other business endeavours; essential sources and assets with strong income streams. These elements are not and cannot be reflected by traditional valuation methods.

If it is assumed that the new generation of landowners who put an emphasis on lifestyle and hedonic enjoyment of appealing landscapes, and not on farming as such, then it can be reasoned that a new generation of landowners aren’t farmers in the first instance or primary farmers or staple farmers, but merely owners of farmland. It would then follow that in principle these landowners do not do lifestyle farming, but engage in a farmstyle living. This doesn’t mean that there is no engagement in farming at all, but it implies life on a farm where farming can be done if so desired – but the main endeavour is just living on a farm. Doing farmstyle living is more descriptive of the future of this new generation of landowners, than lifestyle farming.

[1] Magister Graduate, Department of Quantity Surveying and Construction Management, University of the Free State, South Africa.

[2] Chair and co-study leader, Department of Agricultural Economics, University of the Free State, South Africa