The last great untapped asset class

As a top performing asset class for about a century, farmland has proven time and time again to have upside growth potential and to be resilient throughout various economic scenarios. It is an essential global asset class tied to food production and more investors are looking to add farmlands into their investment portfolios.
What does farmland offer to clients?

As an income producing, finite, natural resource farmland represents around USD 9 trillion globally\(^2\). In the US alone it is a USD 2.5+ trillion market\(^3\). It’s historically high returns and low volatility, together with a growing global population and decreasing land supply mean the demand for farmland will only become more essential over time.

Our experience in US agricultural real estate dates back to the early 1970s as one of the first firms to invest in farmland on behalf of pension funds, starting in 1990. Today, we are one of the leading managers of institutional farmland investment portfolios in the US. We specialize in the acquisition, management, and disposition of agricultural real estate investments. We offer investors an opportunity to invest in farmland through individual accounts and through various structures that invest in high-quality, income-producing agricultural properties, diversified across the prime farming regions of the US. Our strong team of seasoned experienced professionals evaluate the best opportunities to ensure our clients are investing in high-quality, prudently structured portfolios.

What role can farmland play in an investor’s portfolio?

Farmland is a huge missed opportunity, with many investors still thinking it is only a place where their food grows as opposed to an asset class. This is mainly due to historically there not being many ways to access this investment opportunity. Farmland combines passive cash flow, appreciation that outpaces inflation and has less volatility than other asset classes. We believe it can be a powerful diversifier and inflation hedge within an investment portfolio due to its returns being negatively correlated with equities and bonds and its positive correlation with inflation. Time and again it has proven to be an asset class to generate attractive income with low volatility evidenced by past major economic crises and it can help to build a balanced portfolio.
How does farmland compare to other types of asset classes?

The last four decades have shown that farmland has outperformed stocks, bonds and many other asset classes with double-digit total annualized returns over the period (Figure 1). The demand for land, and what it produces, is rising, though supply is strictly limited. With demand exceeding supply, prices will of course have to rise which is why now can be a good time to invest in this asset class.

Farmland appreciates at an attractive rate and pays a good yield as you wait for the demand/supply imbalance to widen. It’s important to note that farmland as an alternative asset class is not correlated to other asset classes. This means its income and capital appreciation happen independently of whether or not the stock market rises or falls.

When does it make sense to invest in farmland?

During times of economic stress and significant price volatility, many investors have turned their attention towards hard, tangible real assets that have a core capital value embedded. In particular, where capital growth is driven by solid fundamentals, and where direct ownership is a distinct possibility. Investing into farmland has all of these characteristics with many investors now seeing the full scope of its potential. There is still a lot of demand for land globally, as well as strong competition to get into this market. But, farmland has durable valuations and attractive levels of income compared to other asset classes.

Figure 1: US farmland returns in perspective (annual returns 1970-2019, %)

Source: UBS Asset Management, Real Estate & Private Markets, research based on data obtained from the Bureau of Labor Statistics, Morningstar, the BarCap Aggregate Bond Index, EAFE International Stock Index, S&P 500 Stock Index, IA S&;P 500 Small Stock Index, NAREIT, NCREIF Property Index and Core Farmland Index as of 31 December 2019. Source of CPI: Bureau of Labor Statistics. CPI is the Consumer Price Index, an inflationary indicator of the standard of living in the US. It is also referred to as the “cost of living” index. Means are annualized returns consistent with methodology used by NCREIF and are as of December 2019. Past performance is not an indication of future results and the possibility of loss does exist. The Core Farmland Index (CFI) does not include fund-level management or other fees or fund-level expenses, is not available for investment and is for illustrative purposes only.
What is the return potential of farmland investment? What are the risks?

Not only has farmland outperformed every major asset class in the last 30 years, but it has been providing investors with strong annual average returns (Figure 1). Looking at the basics, farmland produces returns from two main sources. The first being the land value appreciation and secondly income from rents paid by the operators of the land. In addition, these investment gains don’t include the use of much debt to augment returns. As one of the least volatile asset classes, farmland investments show that high returns can in fact correlate with low risk. Its illiquid nature and capacity to provide strong and consistent risk-weighted returns relative to other asset classes make farmland increasingly attractive investors. Given the current climate, the increasing global demand for farm products has supported higher commodity prices, farm income, farmland rents and farmland values. This means that returns are expected to remain around long-term averages in the near-term and should further benefit from increasing global demand for food in the future.

Like any investment, there are risks. In agriculture this can include damage to crops, fire, pests etc. Depending on where you invest, government policies surrounding restrictions and risks can impact farmland investments. These are all factors we take into account. Investors can reduce risk by diversifying their investments. For example, this can be achieved via diversification of the types of crops produced such as commodity crops, vegetable crops and permanent crops. Diversification can also be achieved across many US geographic regions which mitigates weather risk and carries benefits from good transport infrastructure. For example, the Mississippi, Ohio and Columbia rivers run through farming regions and transport farm goods to export facilities and domestic users. The US rail and highway systems are well developed and serve to move large volumes of farm products. In addition, large port facilities in New Orleans, Portland, Los Angeles and Houston are additional advantages to diversifying farmland investments across the US.

How competitive is it to access the farmland market?

Many would ask why someone should look to invest in farmland now. The simple answer is, as the saying goes “they’re not making any more of it”. Currently, the market isn’t too small or too saturated. Only 11% of land globally is suitable for cultivation². In 2019, the total value of farmland and buildings in the US came to around USD 2.5 trillion³. With more investors chasing a limited number of deals, we expect farmland to continue outperforming financial assets over the coming decades. The long-term high demand for farmland has left buyers increasingly hungry for opportunities. Evidence of buyers looking further afield like in the US for better-value property is also becoming increasingly apparent, and may be a driving factor for this increasing demand. The majority of US farms and ranches are family owned and operated.
Are farmland investments considered long-term?

Farmland is by nature, a long-term investment. Increased market volatility has forced investors to search for assets that will be resilient throughout the economic cycle. Farmland is a durable and consistent investment with upside growth potential. Return on investments can vary from a year to up to seven years. And, in spite of short-term fluctuations in commodity prices, returns can be better measured over longer periods. In the current climate, and taking into account the ever-increasing global population and demand for food, farmland offers a truly unique investment opportunity with inviting long-term returns. Increased market volatility is causing investors to search for assets that will be resilient throughout various economic cycles. Farmland investments are considered a good choice given its durability.

Do you consider ESG factors when investing into farmland?

Investing into farmland isn’t just about getting the best return on investment, but it is also about responsible investment. For example, provisions can be added to leases to address the use and handling of fertilizers, herbicides and other chemicals. In addition, new global standards are being introduced to address responsible investment in farmland, such as the ESG Leading Harvest standards for farmland portfolios. The standard is designed to advance sustainable agriculture and empower sustainability leaders to share and adopt better practices and be good stewards of the land.

It is estimated that around USD 2.5 trillion³ worth of US farmland is being used to feed people around the globe. With our business exporting 25-30% of its agricultural output, it is important to preserve the productivity of the land for the coming generations to continue growing food for an ever increasing population. Additionally, an increase in food productivity in turn helps to feed people and provide jobs, contributing to the alleviation of poverty and food shortage issues that many people face around the world.

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How do farmland investments respond to crises?

Since the global financial crisis of 2008 (GFC) and COVID-19 farmland prices have continued to show strength, even as the scope of the crisis-driven turmoil impacts most of the economy. In addition, farmland yields are tied to food prices which have not been negatively impacted during past crises. Farmland has proven to be reliable through times of economic turmoil, with its durable valuations and attractive levels of income compared to other asset classes. Investors should look to diversify their portfolios and seek stable markets to mitigate the risk of financial instability. Many investors choose to sit dormant during times of economic stress, when in fact being active in areas such as farmland can contribute to a more solid portfolio. The key is to invest wisely. Although no investment is recession proof, farmland has proven to be comparatively stable when compared to other investment options.

Are there any comparative advantages of US farmland investments compared to other regions of the world?

The fundamentals that influence US farmland values are favorable for investments. Firstly, the US has the largest cropland mass in the world which is located in latitudes favorable to crop production. In addition to the vast global export potential of US farmland products, increased productivity is one of the main contributors to economic growth in US agriculture. With this increase in productivity doubling since the 1970s, coupled with increased opportunities in new farming technologies to upsurge productivity, we can expect to see a new revolution in agriculture and crop production. The farmland commodity markets are global and US farmland is greatly benefiting from the increased demand with exports hitting all-time highs.

The US is renowned for being an efficient and reliable producer of alternative fuel. Increasing global demand for alternative fuels such as ethanol and biodiesel has boosted the demand for crops such as corn. While corn may eventually be replaced as the stock for alternative fuels, the replacement crop will still require farmland on which to grow it. If it is a profitable crop, our farmers will produce it. And, as innovation pushes change, new skills and a better understanding will be required. The US has a vast array of land grant colleges, agricultural extension programs and local farmers with strong management skills meaning that as the industry continues to evolve, then so too will its participants.

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1 Data as at 30 June 2020  2 Based on FAO 2019 data  3 USDA, June 2020.
Note: Past performance is no guarantee for future results.