



BENEFITS OF FARMLAND INVESTMENTS

ABSTRACT:

A review of the benefits of farmland investments

KEYWORDS:

Farmland investments, inflation hedge, portfolio diversification

INTRODUCTION:

Farmland investments are attractive as they provide competitive returns, are effective inflation hedge vehicles and add diversification to investment portfolios.

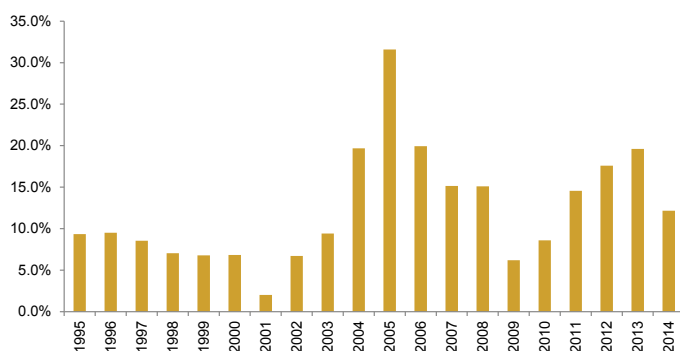
DISCUSSION:

Competitive returns

Farmland investment has generated an average return of 14.5% over the five years period of (2010–2014) and 16.0% in the 10 years period of (2005–2014). This is higher than the five-year average return of 13.4% and the 10-year average return of 7.2% for the S&P 500 index over the same periods.

Based on the Sharpe ratio, farmland investments have given a superior return for the same amount of risk compared to most asset classes.

Fig. 1 – NCREIF farmland returns



Source: National Council of Real Estate Investment Fiduciaries

Portfolio diversification tool

Farmland as an asset class has had low/negative correlation with other investment classes, which provides diversification benefits to its investors. See Fig. 2

Inflation hedging tool

Farmland returns demonstrate a positive correlation with inflation, making farmland an effective tool for hedging this risk (farmland, which produces food, has inelastic demand and is capable of producing better returns during inflationary periods). According to a Hancock Agricultural Investment Group study, farmland returns have consistently beaten inflation.

**Fig. 3 – Farmland versus inflation
(period ending Dec. 31, 2009)**

Timeframe	US farmland appreciation return	Inflation	Farmland advantage
3 years	5.40%	2.37%	3.03%
5 years	9.80%	2.61%	7.19%
10 years	5.84%	2.55%	3.29%
20 years	3.92%	2.74%	1.18%
40 years	5.11%	4.47%	0.65%
60 years	5.30%	3.76%	1.54%

Source: Hancock Agricultural Investment Group

During periods of very high inflation, we believe that this hedging quality is even more pronounced. In the 1970s, western Canadian farmland increased from

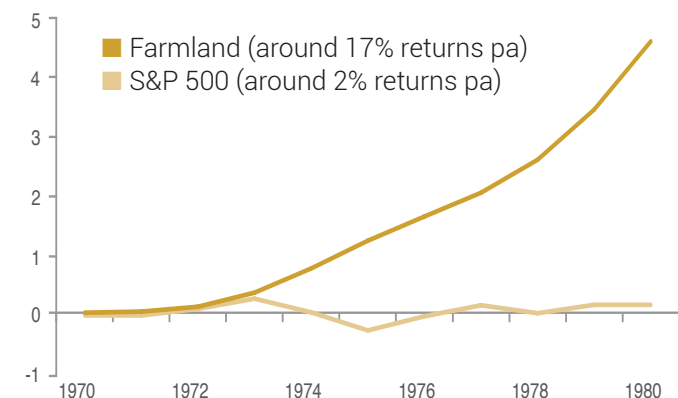
Fig. 2 – Correlation of asset returns (1970–1998)

	T-Bills	Bonds	Farmland	Canada	France	Germany	Italy	Japan	UK	USA
T-Bills	1.00	0.93	0.08	-0.16	-0.12	-0.11	0.04	-0.13	-0.09	-0.04
Bonds		1.00	0.00	-0.18	-0.12	-0.08	0.06	-0.03	-0.06	-0.01
Farmland			1.00	-0.03	-0.21	-0.21	-0.34	0.32	0.40	0.61
Canada				1.00	0.49	0.19	0.34	0.32	0.40	0.61
France					1.00	0.70	0.74	0.45	0.46	0.45
Germany						1.00	0.63	0.30	0.39	0.38
Italy							1.00	0.43	0.29	0.38
Japan								1.00	0.23	0.17
UK									1.00	0.57
USA										1.00

Source: Efficient Investment in Saskatchewan Farmland by Marvin J. Painter Ph.D. (University of Saskatchewan)

around \$100/acre to over \$500/acre in a decade - significantly outperforming equities.

Fig. 4 - Farmland versus S&P during 1970s inflation



Note: Graph rebased to make prices in 1970=0

Generation of income

Farmland investments help in generating income for investors either from rental payments (collected from leasehold farmers), or as a percentage of harvest revenue as a part of a crop sharing arrangement, which is basically a joint-venture between the landowner and the farm operator. Farmland enjoys almost 100% tenant occupancy rates as rental demand for quality farmland is consistently high, ensuring that farmland investment incomes remain stable irrespective of most market conditions, further reducing return volatility within a diversified investment portfolio.

REFERENCES:

1. National Council of Real Estate Investment Fiduciaries
2. Bloomberg
3. Efficient Investment in Saskatchewan Farmland by Marvin J. Painter Ph.D. - University of Saskatchewan
4. Hancock Agricultural Investment Group

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