



Refocusing International Farmland Investment



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 **Quick read**

Introduction

The factors that created investors' fascination with farm land investment are likely to persist, however they need to think less about farm land as an asset class and more about agri-food as a business sector.

Attractive Asset Class

The original spur for farm land investors was the spike in global food prices back in 2008, which led to institutional investors reserving part of their portfolio allocation for food production assets.

Farm land is attractive as an asset class for a variety of reasons. In developed markets, agricultural land has a low correlation with other asset classes, which means that farm land investments perform at points of the economic cycle when other asset classes are sagging. It also has a high correlation with inflation, which means that its value is not eroded during periods of high inflation.

Agricultural land also offers robust capital appreciation, due to a combination of rising demand and constrained supply, which can lead to attractive long-term investment returns. The sale of commodities, or rent receipts from tenants, can be distributed as income. Because farm land investments have a low return volatility, investors know that they are likely to get steady returns, year-on-year.

Investors

After the market crash of 2008 and a long season of drought, Mergers and Acquisitions (M&A) are finding their way back in the corporate mainstream. However, it is claimed that 83% of all mergers and acquisitions fail to deliver expected value and more than 50% of the transactions destroy the firm values in the longer term.

An estimated 43 percent of farm land investment is by high net worth individuals, with another 30 percent held by US pensions funds. Despite fears of nation-states and sovereign investor funds purchasing the productive farm land of their neighbours, only an estimated 8 percent of investment funds derive from this source. It has attracted long-term investors such

- The factors driving interest in farmland investment are likely to persist, however investors need to think less about farmland as an asset class and more about agri-food as a business sector.
- Farmland investments perform at points of the economic cycle when other asset classes are sagging, and its value is not eroded during periods of high inflation. It is also more likely to lead to attractive long-term investment returns.
- Farmland has a wider geo-political and social significance to investors in the Middle East, where food security is a concern. The majority of GCC investor activity has focused on either Africa or Asia.
- Investment drivers include the increasing global demand for food production. Water shortages, climate change and slow growth in crop yields have added to that drive.
- From a negative perspective, investors have been accused of buying land that has resulted in the dislocation of local populations and of reducing the local food supply.
- Although farming is the indispensable first step in the food value chain, it is not where the most value is created, and investors need to consider agribusiness overall for value creation.

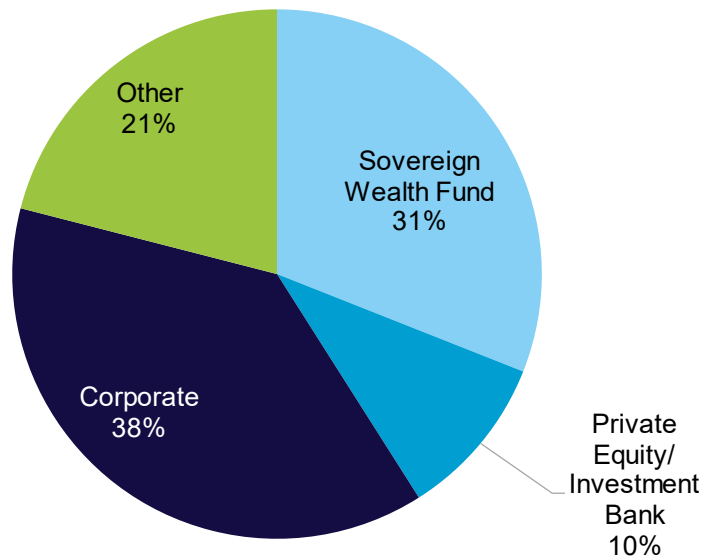
as pension funds, family offices and sovereign investment funds. Farm land has a wider geo-political and social significance of particular interest to investors in the Middle East, where food security is a concern



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Figure 1: GCC Investor Types Investing in International Farmland



Source: Land Matrix/Farrelly & Mitchell

Investor Focus

To date, the vast majority of GCC investor activity has focused on either Africa or Asia. The 36 African deals were primarily concentrated in North and East Africa, mainly in Sudan and Ethiopia, with an average intended size of 78,400 hectares. The 19 farm land deals in Asia were concentrated in Southern and South Eastern Asia, mainly in Pakistan and the Philippines, covering over 3 million hectares.

Investment Drivers

The FAO food index has shown a sustained increase from 2003 until 2008 and reached an all-time peak in 2011. Food prices are projected to remain elevated, due to a growing world population. Food production will have to rise between 60 percent and 100 percent by 2050 to feed a rapidly rising global population that seeks more resource intensive foods such as meat. Interest in the sector has also been driven by water shortages, climate change and slowing growth in crop yields.

However, it also has inherent drawbacks as an asset class. Land acquisition is a politically sensitive issue and investors have been accused of buying land that has resulted in the dislocation of local populations and of reducing the local food supply.

Some projects in developing countries have been hamstrung by weak infrastructure and high transport costs and ill-defined property rights which can lead to conflict with local populations.

Value Creation

The manufacturing, distribution and retail of food – where consumers will pay for brand, quality and experience – which has more potential for profit.

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Investors also need to consider non-agricultural returns when assessing land, such as mineral rights and land use change. Finally, investors need to consider investing in already established agribusinesses, which need financial investment to grow. For example, Emirates-based business house IFFCO purchased shares worth up to 20 percent of Australian Agricultural Company, a majority Australian beef production enterprise with over seven million hectares in land holdings.



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Expert in this Insight

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Conclusion

The factors driving the surge in interest in farmland investment are likely to persist, however investors need to think less about farmland as an asset class and more about agri-food as a business sector. Because farmland investments have a low return volatility, investors know that they are likely to get steady returns, year-on-year, but they need to consider agribusiness as a whole to accrue the benefit of value creation.



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