



# WHAT INVESTMENT ADVISORS NEED TO KNOW ABOUT FARMLAND

Tillable | April 26, 2019



This article first appeared in Wealth Management.

Farmland is full of potential, but you've got to know how to make the most of it. This incredibly stable asset can be a valuable component of a balanced portfolio, if you know how to navigate the ins and outs: your clients who already own farmland are likely missing opportunities to make more from it, and clients who don't yet own farmland should consider purchasing (or investing in) some.

In this article, I'll talk through what makes the landscape for farmland investment favorable today and highlight key things to know to assist current farmland owners and those who may be interested in adding it to their portfolio.

## **The Market for Farmland in America Is Strong**

The market for farmland is huge – there are over one million individual farmland owners in the US, but ownership isn't everything. 55 percent of farmland owners don't farm their own land, and today rented farmland accounts for 355 million acres, worth \$32 billion.

What's more, most families who own farmland aren't getting the answers they need. We estimate that landowners leave \$8 billion in rent on the table every year because they don't know what their land is worth. This is where you as an investment advisor can provide key counsel.

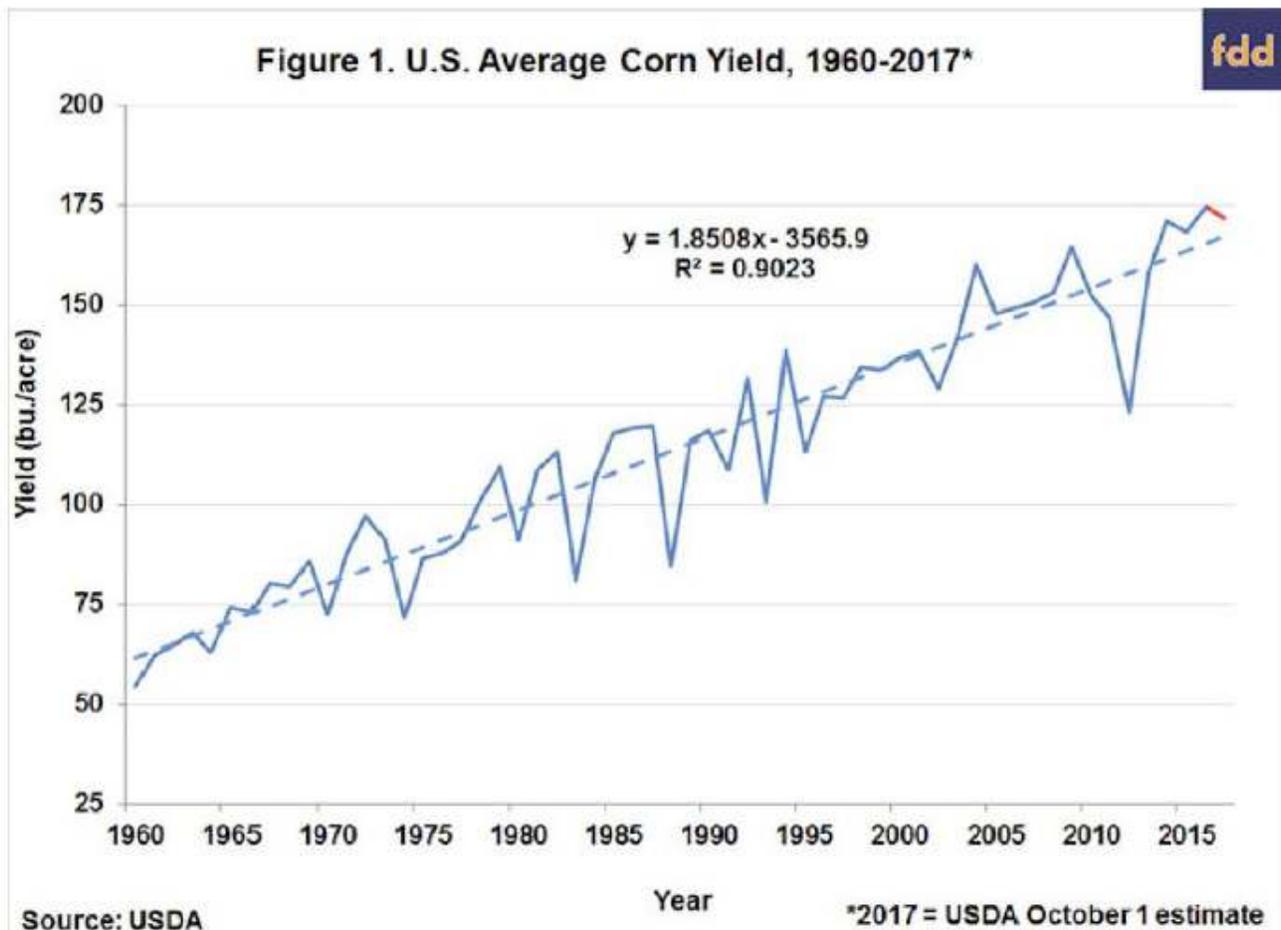
## A Favorable Situation for Investment

One reason farmland is such a good investment opportunity right now is that the long-term demand for food remains high while the per-capita land required for its production shrinks. To meet the the demand of the world's projected population in 2050, the agricultural industry needs to produce almost 50 percent more food, feed, and biofuel than it did in 2012.

We also expect to see the amount of tillable land decline per capita – between 1.8 and 2.4 percent through 2030, largely because of desertification, climate change, and urbanization. This means that the value of tillable farmland will only increase in the near future.

At the same time, global appetites are shifting. Higher per-capita incomes are increasing the demand for proteins, which require more grain to produce per calorie, and therefore more land to grow that grain. Consider that it takes 2.5 pounds of grain to produce one pound of beef; this translates to more land use to produce this feed and to raise the cattle.

Unlike many other assets, productivity growth plays a substantial role in determining the value of farmland. As productivity improves, output (yield) rises, and the value of farmland increases due to future production potential. Consider the average corn yield in the US, charted below:



Innovations in farming technology and seed science have contributed to huge gains in yield. As tillable farmland becomes harder to come by, the value of each acre of productive land will continue to grow. This isn't the case with other real estate investments, where income derived from the property is the exclusive driver of value.

The amount of corn you can expect to grow per acre has an impact here, which is why you need to be aware of trends in yield: potential farm income drives current rents, not long-term value. As this chart suggests, the impact of compounding annual growth of productivity has helped fuel appreciation of farmland as an asset.

## **What Clients Who Own Farmland Should Know**

Most farmland is under-rented. If you take one thing away from this article, let this be it.

Farmland can be complicated to evaluate, especially if your client hasn't been farming it for the past several decades. It's often unclear what the market rate on an acre may be because recordkeeping and yield can be hard to track. Especially if your client is among the majority of farmland owners who don't farm, the process can be intimidating.

If your client owns farmland, make sure they understand that they're in luck and that they have options. They need to make sure to optimize the land's yield or rent it out for at least market value.

## **How to Get a Better Assessment of Farmland's Market Rate**

There are currently 1.5 million landlords with some 1.8 million rental arrangements in the farming industry. But if the only land your client rents out is their own, they're unlikely to have a sense of what fair market value is based solely on their land's past and potential productivity.

This is where data is power. We typically see professionally managed farmland make 25 percent more than privately rented farm land, and a big part of this is due to the fact that management groups know what the going rate is.

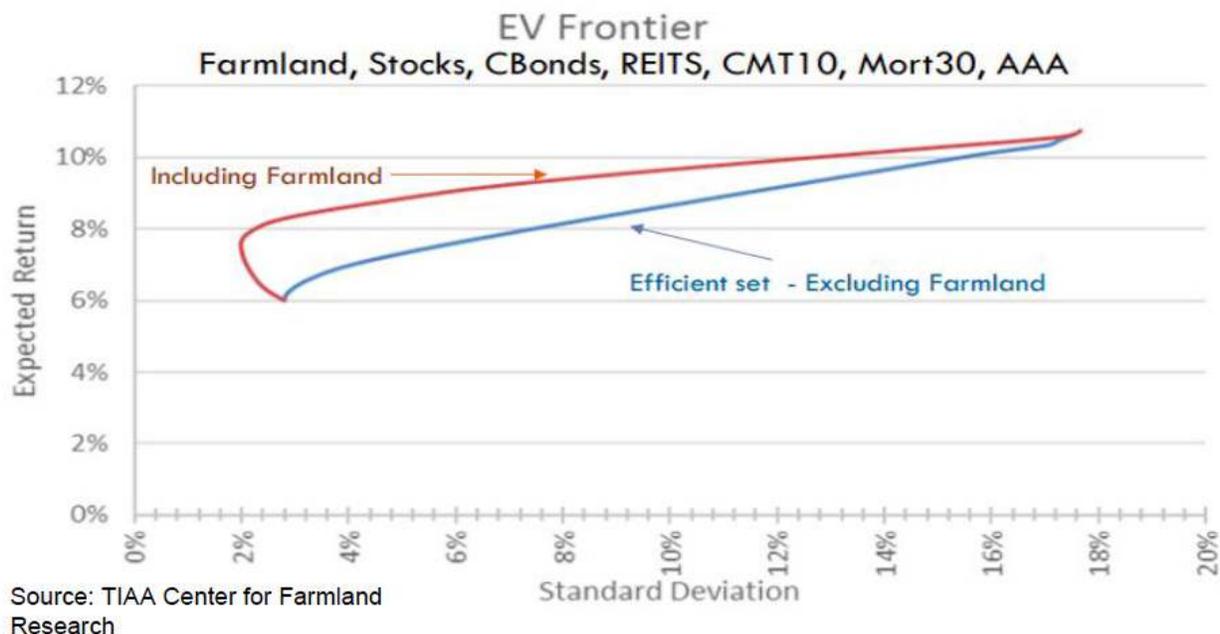
Farmland managers know the land they rent, how much it produces, and the going rate per acre. In short, they have a proprietary frame of reference. And they have the power to negotiate.

To get a leg up, you or your client should start by keeping better records, doing research on the history of production on the acreage, and looking up comparable rental rates in the area. Of course, your client can also consider getting help renting their land from a professional.

## **What Farmland Can Do for Clients Who Don't Own Farmland**

Most individual clients you'll meet don't own farmland, but that doesn't mean it's not a wise investment.

The investment characteristics of farmland make it an attractive cornerstone to a balanced portfolio. As real estate goes, farmland is the ultimate low-risk, high-return investment. It has a negative correlation to equities (beta) and a positive correlation to inflation. It also has a high Sharpe ratio.



The result? The addition of farmland to a mixed portfolio positively impacts the efficient frontier and helps balance your client’s portfolio.

### Farms Are Still the Backbone of America

Farmland is a cornerstone to most insurance companies’ holdings because it is stable, and, thanks to guaranteed future demand, highly valuable. Even if your client isn’t lucky enough to inherit farmland, it may be a wise asset to supplement their retirement plan.

Corbett Kull is the cofounder and CEO of Tillable, the online marketplace for the \$32 billion farmland rental market. Tillable helps landowners optimize returns and helps farmers access land to expand operations.

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