



FDIC Symposium: How Concerned Should We Be About Farmland Prices?

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What Are Investors Looking For?

- **Many investors lack confidence in the stock market, and are unhappy with the high handed ways of many of Wall Streets institutions**
- **Investors are looking for uncorrelated and diversified investments**
- **Investments in asset classes lacking significant leverage**
- **Investors are worried about high deficits and possible ensuing inflation that could possibly come from a normalized rate environment at the end of QE2 and other governmental support programs**
- **Investments in asset classes where there is not too much herd participation.**
- **Many investors are worried about liability matching for their plans, and are looking for investments with some kind of coupon.**



Ways to invest in agriculture

This may not seem relevant to the farmland discussion, but let's just cover other ways to invest in ag, we'll come back to farmland in a minute

Liquid Investments:

- **Ag indexes– We believe this is where most investors currently get their ag exposure– this is an area that could have trouble with broad based ramifications.**
- **ETF investments**
- **Long/short ag equity strategies**
- **CTA's focusing on soft commodities**

Illiquid Investments:

- **Direct farming**
- **Farmland ownership**
- **Private Equity**
 - **With the increased interest in farming, this should be a growth area over the next several years**



Benefits of Direct Farmland Investment

- **Farmland investment shows returns similar to the stock market with less risk**
- **Returns not correlated to the stock market or other commercial real estate markets**
- **In inflationary periods, returns tend to correlate positively to inflation**
- **Farmland is a hard asset not subject to the vagaries of securitized asset price fluctuations**
- **Not heavily leveraged as a sector**
- **Farmland is the ultimate residual claimant of returns to agriculture**
- **There is many years of data for farmland making statistical and risk analysis more robust**



Changes in Production Agriculture Create Opportunities

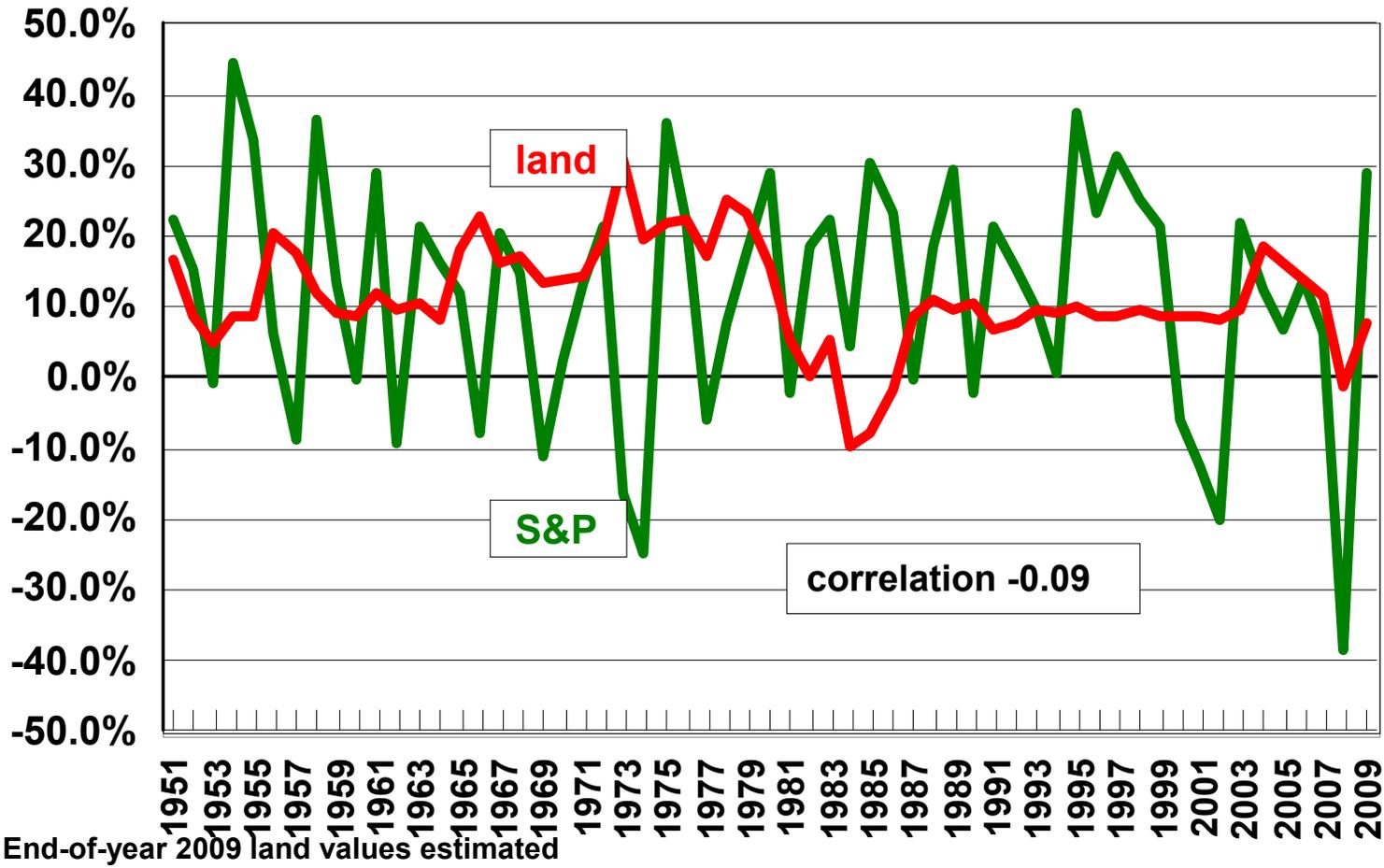
- **There are large economies of size in farming**
 - We'll soon see rapid consolidation in production
 - Dramatic reductions in per-unit production costs will ensue
As they push for growth, farmers will prefer to rent (not own) an increasing portion of the land they farm, thus increasing rents
- **Large economies of size could spark rapid growth**
 - Intergenerational wealth transfer coupled with debt will not keep up with the growing demand for capital
 - Both demand and supply of capital will commercialize

Land: comparable returns to stock market; less risk

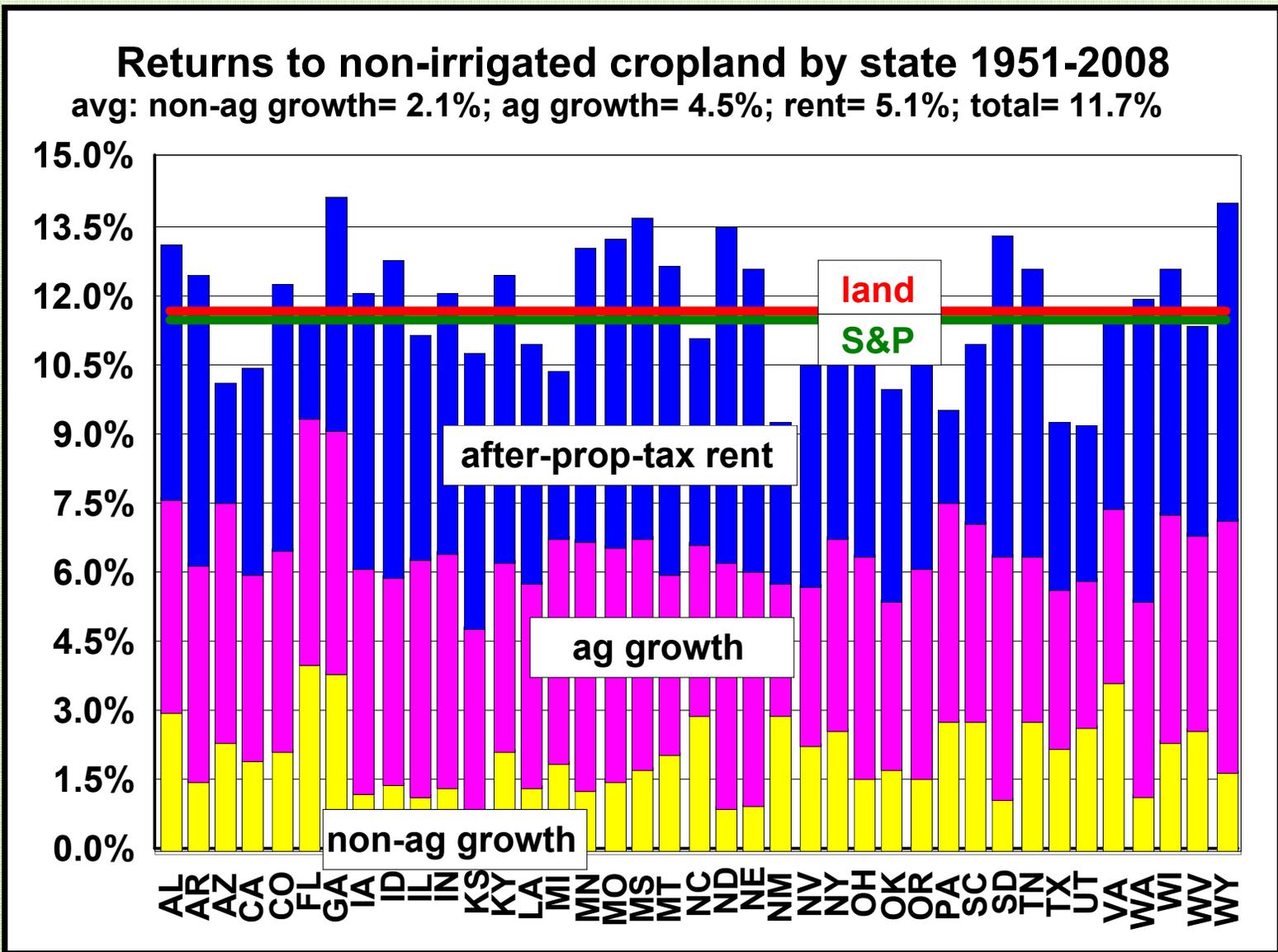
39-state crop land and S&P fund returns, 1951-2009

S&P: avg 11.78%, std 16.97%; LAND: avg 11.60%, std 7.36%

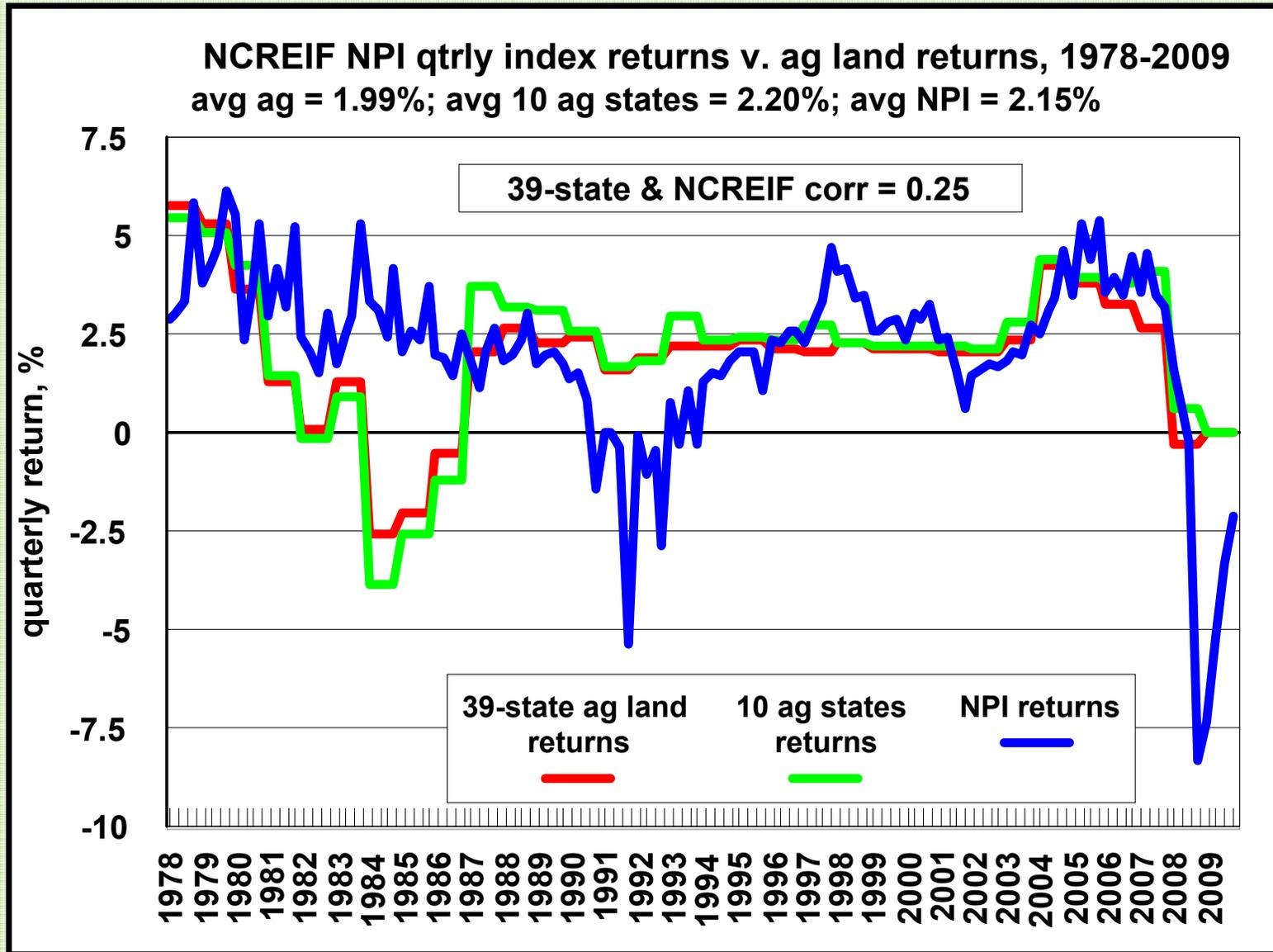
S&P: growth 8.49%, div. 3.29%; LAND: growth 6.55%, div. 5.11%



Selecting which properties to own can be quite important

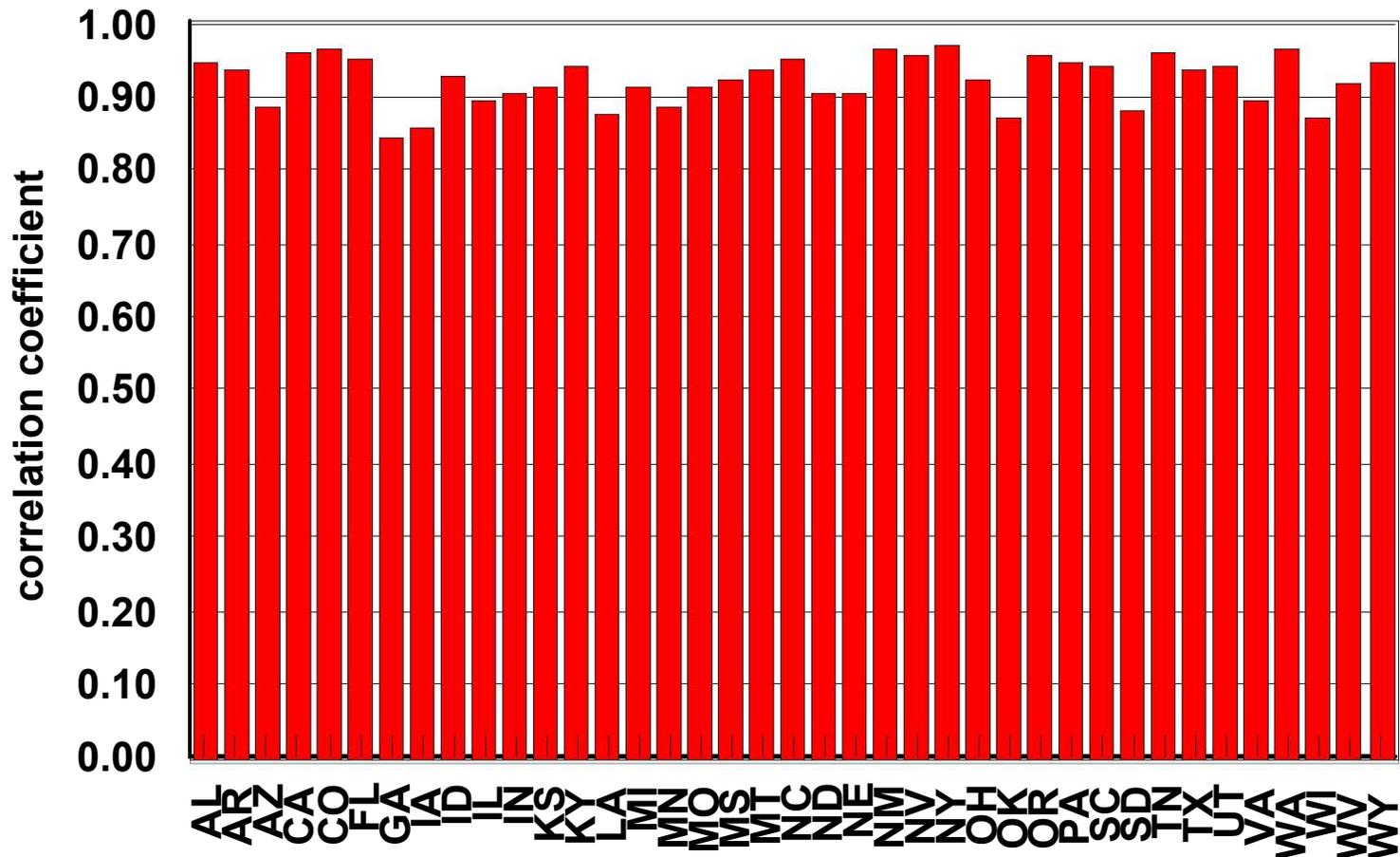


Ag land is NOT commercial/residential real estate



Ag land is a good inflation hedge

Linear correlation between inflation index
and agricultural land values, 1951-2008
average across 39 states is 0.92





Selecting What to Own

- **Rent to Value**

- The rough average for rent to value yields in the US over the last fifty years is around 5%. Intelligent investment might suggest you'd want to buy around that level or better

- **Suitability for agriculture (always important)**

- Soil quality (fertility, slope, etc.)
 - Landowner-tenant relationship (critical)

- **Suitability for non-ag benefits (recently important)**

- Current or future home sites
 - Hunting and other recreation
 - Value of water (even wind) or carbon credits
 - Value of minerals

- **We believe 100-200 basis points can be added by good geographical and tenant selection**



Warning Bells, and Possible Pitfalls

- **What Can Go Wrong:**
- **Extreme run up in commodity prices due to massive Index Fund investment. Once the investors are no longer in love with these liquid instruments and supply/demand economics in global production and demand stabilize, prices for both grains and ultimately farmland could come down in a more volatile fashion than they would normally do if no futures speculation existed.**
- **Vastly increased institutional ownership could cause land prices to rise faster than they should or normally would, given that farmers and experienced investors are aware of the volatility of commodities and know not to pay too much attention to short term volatility, and inexperienced new investor entrants to the agricultural space do not understand so well.**
- **A fast jump in interest rates or inflation could destabilize the sector, probably more due to the levels of operating leverage than leverage of farmland itself.**
- **Input cost rise even faster than grain prices**



Questions?