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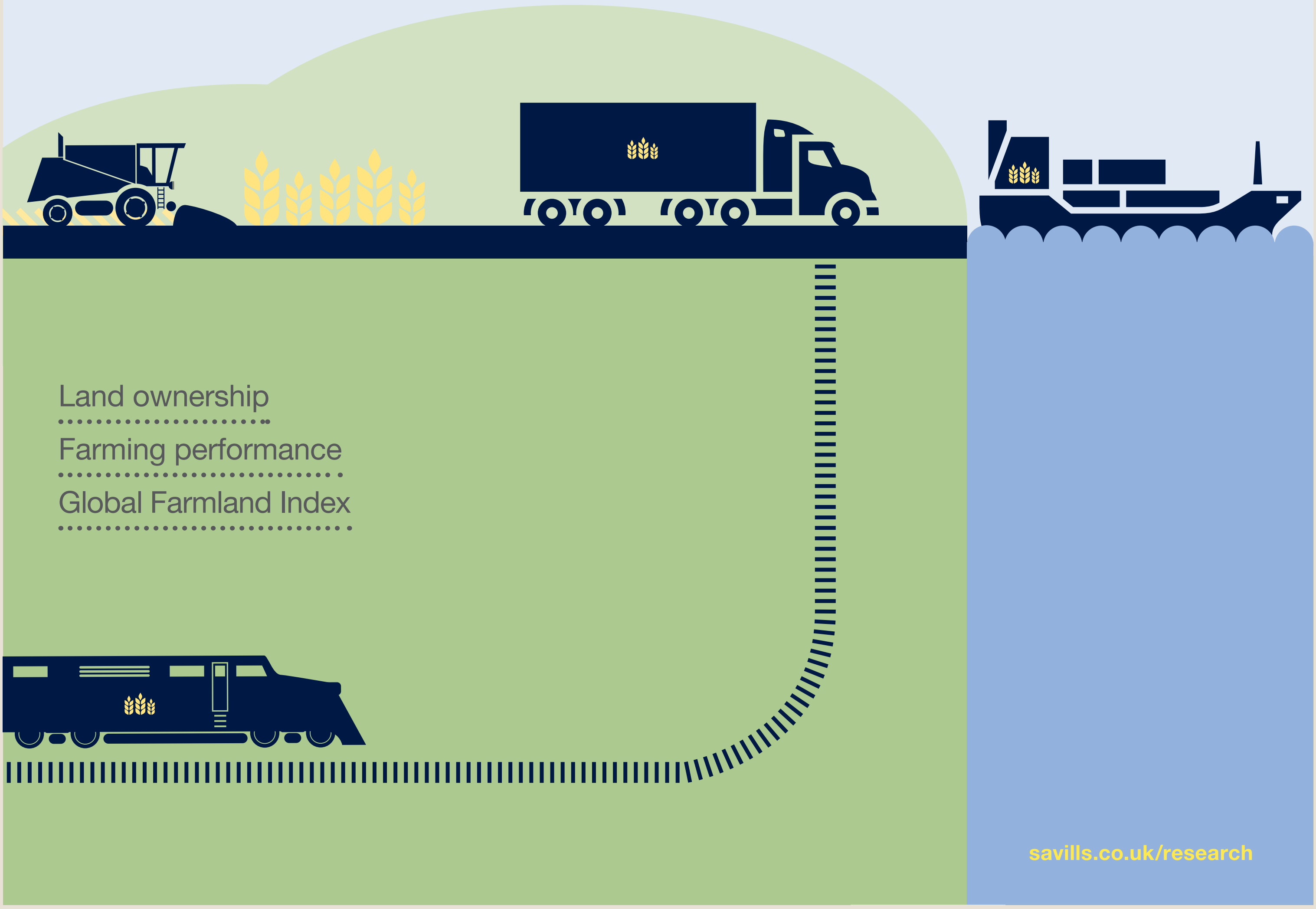
Savills World Research
International Rural

INTERNATIONAL FARMLAND
FOCUS 2014

Global Spotlight
Routes to market

Reaping the benefit
The value of infrastructure on investment performance



Land ownership

Farming performance

Global Farmland Index

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This publication
This document was published in April 2014. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts.

Glossary of terms
The most commonly used abbreviations are:
- NCREIF: National Council of Real Estate Investment Fiduciaries
- USDA: US Department of Agriculture
- IPD: Investment Performance Databank
- OECD: The Organisation for Economic Co-operation and Development
- FAO: Food and Agriculture Organisation
- WTO: World Trade Organsation

All charts in US$ per ha unless otherwise stated

Foreword
EXTENDING YOUR PORTFOLIO OVERSEAS

Investment in global farmland provides the opportunity for significant returns, but an in-depth understanding of the market is essential

Welcome to our latest 'International Farmland Focus'. Across the world farmland values continue to grow and farmland remains a top performing asset. Our Global Farmland Index shows an average global annualised growth since 2002 of 20% – with the highest growth recorded in the emerging markets.

Many investors are seeking to de-risk portfolios leading to a wholesale re-evaluation of asset classes in an attempt to identify real and sustainable values. This drive towards safer investment is clearly illustrated by the substantial interest shown in the prime London residential sector, which now attracts investment from around the globe, the GB farmland market and of course the forestry sector.

The proof is in the numbers. Over the past 10 years, average values in the prime London residential market have increased by 135%, GB farmland by 270% and the UPM Tilhill/Savills Forestry Index by almost 325%.

At the same time the rule book of financial 'norms' has in part been rewritten with an understanding by investors, governments and not least the media of the fundamentals and value of prime assets such as agriculture and forestry. This has been driven, as we all know, by a global acknowledgement of the need for sovereign food and energy security driven by population growth and climate change.

All of this is assisted, of course, hugely by the accessibility of global markets, together with the ability to move management skills and technical knowledge, as well as capital, to what are effectively under-developed areas.

Therefore, extending a portfolio into farmland across the world provides access to land and an opportunity for substantial capital growth. As in any case, the rewards depend on the appetite for risk, but an awareness of historical trends and the right choice of location can go a long way towards ameliorating them.

Knowledge is crucial

The global farmland markets are an active and diverse marketplace; we are involved in transactions for farms that grow rice to others with substantial livestock enterprises. We are also actively involved on an advisory level including consulting corporates and funds on valuations for audit and funding purposes.

To the buyer looking to acquire agricultural land overseas, knowledge and understanding of the restrictions and policy on foreign ownership and investment is crucial.

The regulatory environment for foreign investment of farmland is not only complex but varies by country. It will determine both the entry and exit strategy. This publication touches on some of the key issues and current variations that exist around the world.

On the strength of Savills professional global real estate presence and the dominance of London as a global financial centre, we talk to a lot of people around the world and are always interested in extending our network.

In this issue we are grateful to Ülo Adamson, CEO of Trigon Agri for providing us with a brief overview of their business. Trigon Agri is a listed company in Stockholm which was launched in 2006. The company has gone on to acquire farms in the Ukraine, Russia and Estonia with 167,000ha of commercial cereal operations and two large dairy farms.

I leave you with this final message. Investment in global agriculture, and to a degree in global forestry, has only been on the agenda since about 2005. The markets of the world are immature with little reliable comparative data from which to draw direct conclusions.

The range of opportunities for investors is enormous from what I would describe as the pioneer countries of sub-Saharan Africa, where substantial investment in development and infrastructure is needed, to the more mature markets of Western Australia, New Zealand and Western Europe. Central Europe and the Baltic States fall somewhere in between with great opportunities for delivering large scale agriculture at globally competitive prices within a secure European trading market, but some are vulnerable to political risk as recently seen in the Ukraine.

"The rewards depend on the appetite for risk"
Hugh Coghill, Savills

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Global Farmland Index
INVESTMENT PERFORMANCE

The Savills Global Farmland Index illustrates the continued upward trend in average farmland values around the globe

The capital appreciation of farmland value is the main component of investment performance. This is tracked by our Global Farmland Index* launched in 2012 with values to 2010. Where data is available the Index now reports values to 2012.

Across the world farmland values continue to grow. Our Index shows an average global annualised growth since 2002 of 20%. This growth was fairly steady apart from a slight softening during 2009 and 2010 when there was a correction in the exceptional rates of growth in some of the mature markets, notably Ireland and Denmark. Capital values here have subsequently stabilised and are beginning to show positive growth.

Since 2011 capital growth across all markets has regained its previous momentum. Evidence, real and anecdotal, shows that this trend has continued into 2013 and we expect positive growth to continue in the short to medium term.

Key points from our Global Index:

- The highest growth rates were recorded in the emerging markets of Romania, Hungary, Poland, Zambia, Mozambique and Brazil. We expect this to continue.
- Average farmland values in Romania grew by 40% per year – double the average annualised growth and was the fastest growth of any country since accession to the EU.
- Hungary and Brazil recorded annualised growth of around 25%.
- Polish farmland values recorded

"Our Index shows an average global annualised growth since 2002 of 20%"

Ian Bailey, Savills Research

SAVILLS GLOBAL FARMLAND INDEX*

The Index, launched in 2012, is based on data from 15 key farmland markets and aims to provide a comparative indication of farmland value trends around the globe. The Index is derived from the average value of crop/arable land in domestic currency converted to US$ per hectare.

Although converting to US$ per hectare can have an effect on annual growth rates in terms of domestic currency, it gives potential investors a good starting point for comparable analysis. It is a common denominator, which corresponds to the currency of global markets. The values are represented as an Index relative to values in the year 2002 (2002 = 100).

In addition to this index we are now tracking the performance of new markets in Zambia, Mozambique, Tanzania, Ghana, Uruguay, Malaysia, Indonesia and other emerging markets – based on real data provided by our international farmland team.

steady growth over the past 10 years, which has continued since the initial rise post accession into the EU in 2004.

- For the mature markets growth has remained healthy, from over 7% up to 20%, especially when compared with alternative property assets.

Africa

The farmland market in Africa is limited and immature but it is developing rapidly and we are regularly reviewing market data from this region.

Recent comparable evidence in Zambia, where several farms came to the market in 2012, suggests that capital growth can typically range between 20% and 60% per annum discounting value uplift related to infrastructure improvement.

This is highly variable and growth is specific to individual farms and locations and depends on the stage of infrastructure development, size, layout, water availability and operational performance. There is clearly demand for the premium product with proven operational capacity.

These include well established farms in the areas which have good external infrastructure, for example in the farm blocks of Mkushi.

Other property assets

For the countries where robust data is available, the investment performance of farmland continues to exceed that of many alternative assets.

For example, the NCREIF Farmland Index (USA) showed a total return of 19.61% for agricultural properties bought as investments in 2013. US farmland has outperformed stocks and bonds since 1970.

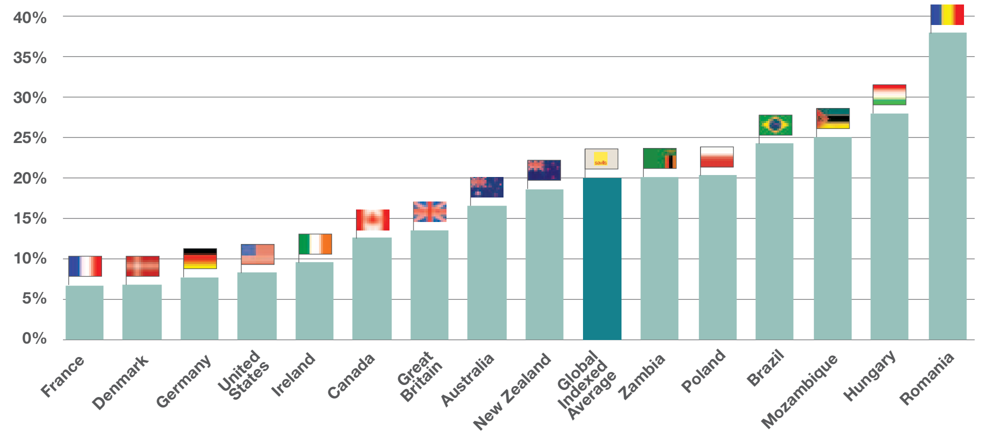
In Great Britain, the investment performance of farmland (in hand farming and let land) and forestry has continued to outperform most other assets over the past 10 years and has been comparable with alternative assets over the past 30 years.

To illustrate the strength of farmland performance across a wider range of countries, Graph 1.2 looks at the annualised capital growth (2002 to 2012) of the three core property assets, farmland, commercial (all property) and residential.

With the exception of markets with regulatory restraints, farmland in general has significantly outperformed residential and commercial assets in each of the countries shown.

GRAPH 1.1

Annualised Capital Growth of values in US$ per ha (2002 to 2012)



Source: USDA, Eurostat and various data estimates

TABLE 1.1

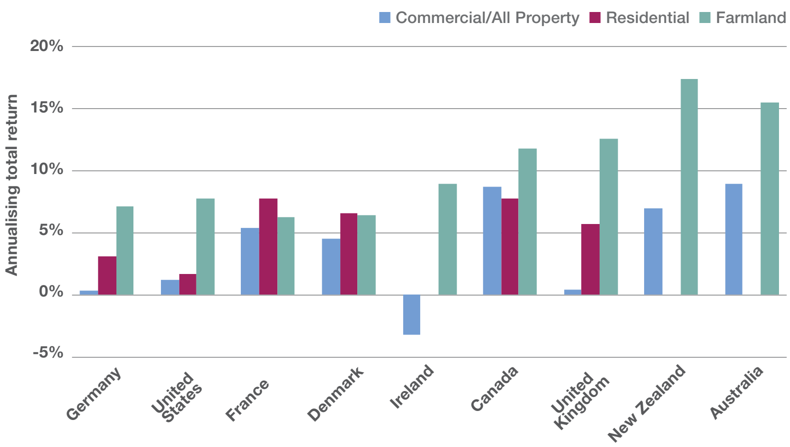
Average Farmland Values in 2011 & 2012 (US$ per ha)

US$ per Hectare	2011	2012
Australia	$1,606	$1,631
Hungary	$3,859	$4,494
Canada	$4,306	$4,741
Brazil	$6,000	$6,840
Romania	$6,132	$6,461
France	$7,453	$6,959
United States	$7,660	$8,747
Poland	$6,751	$7,816
Global Average	$12,650	$13,257
Germany	$18,761	$18,521
Great Britain	$23,175	$25,575
New Zealand	$25,771	$28,662
Denmark	$29,206	$26,649
Ireland	$29,918	$31,496
Zambia	-	$1,800
Mozambique	-	$500
Uganda	$750	$1,000

Source: Savills Research

GRAPH 1.2

Global Capital Growth (Annualised 2002-2012)



Source: Savills Research and publicly available data

Farming performance
THE BUSINESS OF GETTING IT RIGHT

In a complex global industry, there are many factors at play in the achievement of farming performance

Agriculture is a complex industry where investment is generally medium to long term. Achieving top performance of the farming operation and adding value along the supply chain is key to maximising investment returns.

This is especially so in the emerging markets where farming businesses have been inefficient (small and fragmented) and under-resourced (capital and skills).

However, many of these regions have significant resources in terms of land, water and labour.

A popular vehicle around the globe which is attractive to both investor and operator is the sale and leaseback proposition (see panel on page 07).

The agricultural value chain consists of three core areas:

- **Primary inputs** – including land, variable crop and livestock inputs, machinery and equipment, and labour
- **Production and processing** – including raw commodities, primary and value added processing, and packaging
- **Transportation and infrastructure** – including storage, reservoirs, transport (shipping, rail and roads) and communication.

Agriculture operates in a global market and prices (input and output) are influenced by factors around the world. Planting and harvesting dates vary across the world (see Table 2.1) and the weather throughout the growing season and at harvest can directly impact on global commodity markets and demand for inputs such as fertiliser.

The efficient use of labour and machinery, both significant costs, will depend on the local labour markets and the ability to source large and highly productive modern farm machinery suitable for the scale of the farming operations.

At a local farm level the timeliness of crop planting can have a very significant impact on yields and therefore output. For example, drilling soya after November in Mozambique can compromise yields by up to 50%.

Production inputs

Most direct production inputs, including seeds, fertilisers and sprays, operate in global markets. The underlying prices are generally similar across the world with the cost of transport and exchange rates creating any local variations.

The price of these inputs is often demand driven and is becoming increasingly seasonal, for example fertiliser demand relative to conditions at planting time.

In addition, especially in the emerging markets where transport

TABLE 2.1

Planting and harvesting periods for winter wheat

Harvesting Planting

Crop	Country	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Wheat (Winter)	USA						Harvesting	Harvesting		Planting	Planting		
	China					Harvesting	Harvesting			Planting	Planting		
	India			Harvesting	Harvesting	Harvesting					Planting	Planting	Planting
	Russia						Harvesting	Harvesting		Planting	Planting		
	France							Harvesting	Harvesting		Planting	Planting	
	Germany								Harvesting		Planting		
	UK							Harvesting	Harvesting	Planting	Planting	Planting	
	Australia				Planting	Planting	Planting				Harvesting	Harvesting	Harvesting
	Brazil					Planting	Planting	Planting		Harvesting	Harvesting	Harvesting	
	Argentina	Harvesting				Planting	Planting	Planting				Harvesting	Harvesting

links are poor, distance from market can have a significant effect on price and therefore crop margins. This is an important message throughout this report and some of the key constraints are illustrated on page 8.

Infrastructure investment or locating the farming business near a port, market consumer hub such as a mine or sound road or rail network can mitigate these pressures on profits, providing the other agronomic factors are suitable.

In our experience scale is important as illustrated by our case study from Trigon Agri (see page 12).

Knowledge of policy

A knowledge of national and international policy and legislation is important. In several countries, especially within the EU subsidies can make a significant contribution to incomes. The influence of these factors can be very significant on incomes, capital values and sustainability.

In the emerging agricultural markets infrastructure, management and performance are the key factors which determine the success of a project.

Emerging markets can offer good opportunities to add value to current performance through investment in:

- **Infrastructure:** To reduce transport costs and improve output through storage, irrigation and drainage.
- **Processing facilities:** To increase local capacity and drive up value for investors and local farmers.
- **Technical and management expertise:** To raise efficiencies and increase profits.
- **The latest technology and research:** To increase output and quality.
- **New domestic and international markets:** Many emerging markets are members of trade agreements. Through these, they have market access to many regions.

Income performance

As with capital values it is difficult to find robust comparative data and the range of farm profitability can be significant.

However, using available data and our own knowledge, Graph 2.1 illustrates the potential income yields* achievable by top performing farming operations.

There will be annual fluctuations due to climate variations, input supplies and price volatility.

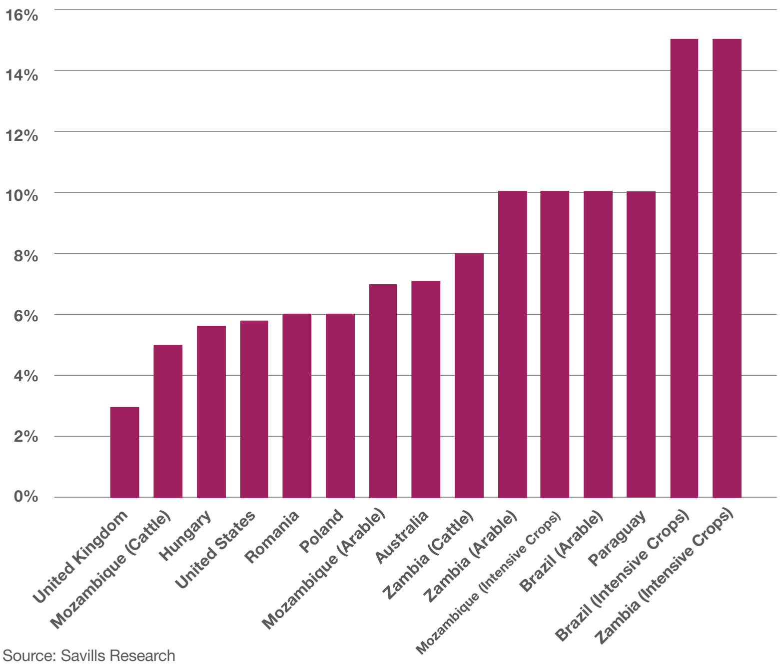
The graph illustrates the potential performance in the emerging markets where there are greater opportunities to add value. This can be done through improving ouput quantity and quality, increasing the efficiency of systems and adding value to the output.

Income performance in mature markets, especially when combined with capital growth, still exceeds alternative assets and carries a lower risk and level of application and therefore should not be discounted.

* Net income returns are net income as a percentage of working and fixed capital employed.

GRAPH 2.1

Illustration of investment performance of top performing operations



Source: Savills Research

THE CASE FOR SALE AND LEASEBACK

Extensive cattle ranch including over 10,000ha in southern Zambia

The sale and leaseback proposition

- Proven operational performance and management
- Proven secondary market title on long leasehold in secure political environment
- Guaranteed 5% yield on a leaseholder offer for five years
- Well developed internal infrastructure with improvement opportunity
- Good access and well located for market
- Considerable lifestyle development opportunity
- Significant capital growth expectation

Why sale and leaseback?

- The investor: Reduced risk with proven management and operational structure in place, but provides opportunity for significant capital growth with a guaranteed yield and property enjoyment.
- The operator: Provided with opportunity to release capital and maximise profit return whilst retaining control of business operations and remaining on farm.

Global snapshot
ROUTES TO MARKET

Reliable access to markets is essential and confirms the fact that location is fundamental to investment performance

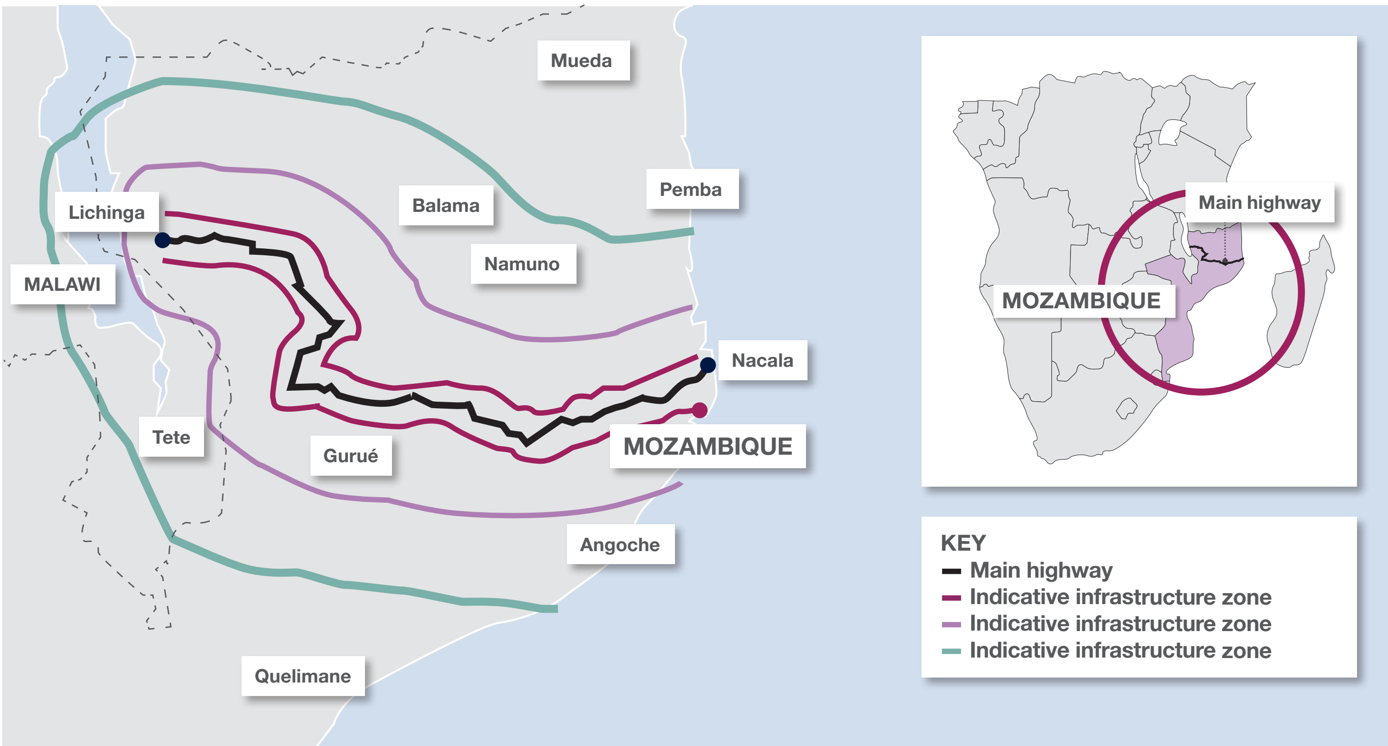
Farmland capital values are higher when locations are closer to good infrastructure due to reduced transport costs. Reliable access to markets (domestic and export) is vitally important to maximising farm profits and the overall performance of the agricultural investment.

In many ways it is a double edged sword as inputs need to reach the farm and outputs must arrive at market without losing quality during the journey.

We use Mozambique and the USA to illustrate the issues to be aware of and how to maximise opportunities to mitigate the potential costs. Location is fundamental to investment performance.

MAP 3.1

Emerging markets Location relative to the main highway is key to transport feasibility and cost. The further away from the main highway, the weaker the infrastructure and the higher the cost



Source: Savills Research and publicly available data

MOZAMBIQUE

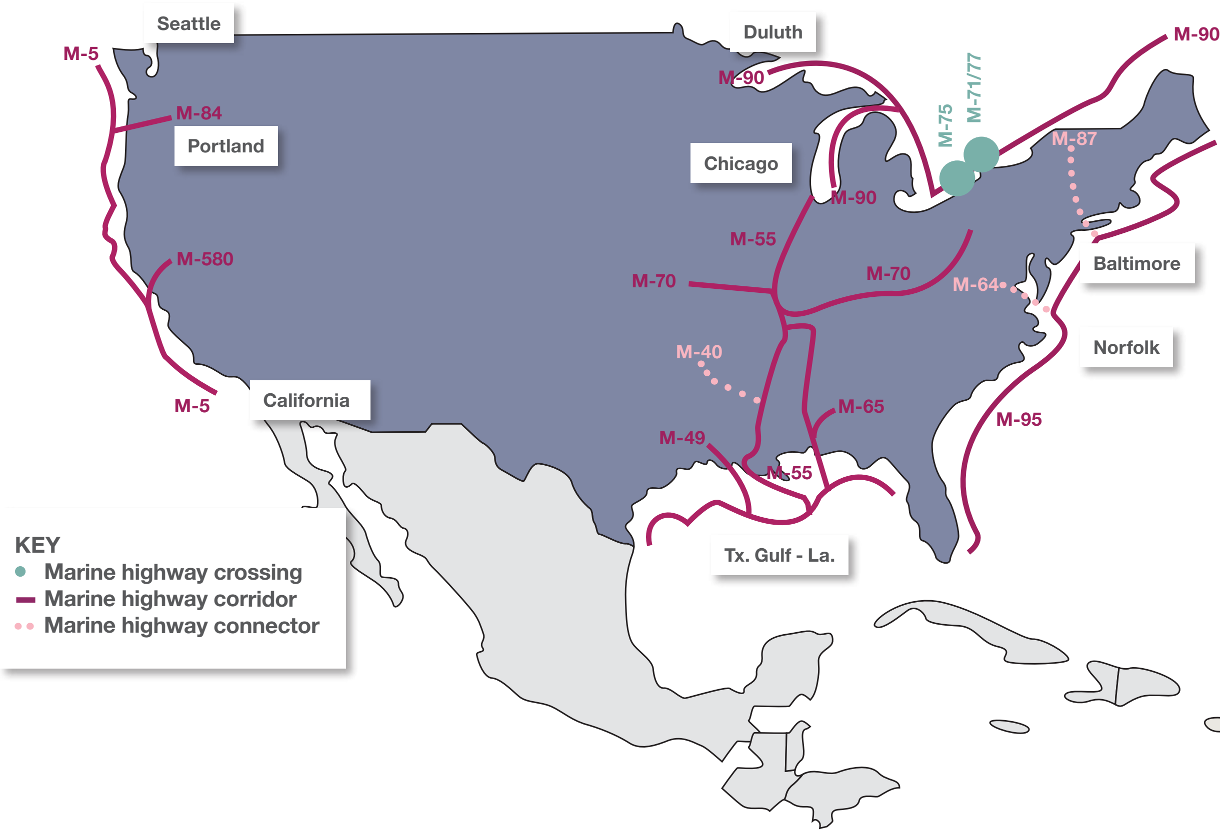
- Transport can be as much as 30% of crop output
- Transport approx: 20 cents per km per tonne along main highway
- 80% of roads are unpaved and only accessible in dry season
- Transport times are excessive and unreliable
- Costs and accessibility increase either side of road and depend on distance from main road and local conditions

COSTS CAN BE MITIGATED BY:

- Linking road and rail investment
- Acquiring land in accessible locations
- Increasing output/reducing costs (especially if agronomic factors outweigh transport costs)

MAP 3.2

Mature markets America's marine highway corridors



Source: Savills Research and publicly available data

USA

■ High capacity international ports, linking markets at home and abroad

■ Good internal waterway network including Mississippi River System

■ Good interstate road and rail networks

■ Increasing access and freight traffic capacity challenges port congestion

KEY TRANSPORT LINK

■ Transporting goods by water is the cheapest option, with road being the most expensive

■ Paved or graded roads are essential to ensure reduced transport time and reliability

■ The cost benefit of railway transport improves with distance and then plateaus

A question of maturity

A comparison of mature and emerging markets

Mature markets

■ Good infrastructure for production areas
■ High capacity international ports
■ Good internal waterway networks
■ Good road and rail networks
■ Spare capacity
■ Bulk handling ports strategically placed near grain production

Emerging markets

■ Poor infrastructure is in some cases coupled with high levels of outputs (eg Brazil)
■ Lack of capacity along the transport links (storage and transport)
■ High proportion roads unpaved
■ Difficulty in transporting output to markets and ports results in high losses due to storage and transport costs
■ Infrastructure is developing but still limited

■ For example, 60% roads unpaved in Hungary
■ Port infrastructure is being upgraded in some areas
■ Transporting farm output to markets is still a major issue
■ Investment in better road networks and transport corridors are opening new markets; eg Mozambique and Tanzania

Land ownership

UNDERSTANDING THE RESTRICTIONS

The regulatory environment for foreign investment of farmland is not only complex but varies by country

To the overseas buyer looking to buy agricultural land, a knowledge and understanding of the restrictions and policy on foreign ownership is crucial.

The policy and regulatory environment for foreign investment of farmland is complex and varies significantly. In some countries, the ownership of agricultural land is prevented on all types of land. In others, there are restrictions on the location, size and types of property that can be owned.

Sometimes there is specific criteria surrounding the skills and character of those who can acquire private ownership of land. Table 4.1 illustrates how the regulatory environment for foreign investment of farmland can differ by selected countries.

In addition, as the interest in foreign ownership of agricultural land increases, the rules can and do change. Lobbying from local people, or a change in government policy can lead to a change in the regulations. For example, a new law recently introduced in Uruguay bans Sovereign Wealth Funds but private investors will not be affected.

Eastern European countries have experienced considerable change in their land market policy. For those countries that joined the EU in 2004, the rules on foreign investment have opened up since 2011. Lithuania, Hungary, Latvia, Slovakia, Estonia and the Czech Republic were granted a seven year transitional period, where they could maintain their existing legislation restricting the acquisition of agricultural land or forest until 2011.

Romania was also granted a seven year transitional period from accession in 2007. However, these restrictions did not fully constrain foreign investment as there were differences within countries in the implementation of this rule. Conversely, in Hungary foreign investment has become more regulated – see box out below.

Advice should also be sought on the rules surrounding the selling of farmland in different countries, because if restrictions change the demand may be limited. Argentina is an example of where the rules changed, and farmland cannot be sold to overseas investors until the political situation changes.

In some countries the option to lease is possible and this is a realistic and viable investment option.

HUNGARY

Foreign investment regulated

- Following accession in 2004, Hungary was granted a seven year transition period to prohibit land purchases by foreigners until 2011.
- This transitional period was extended until 2014 which should have opened the land market to the wider EU from 1st May 2013.
- However, in June 2013 a law was passed – the Hungary (Land Act). This restricts land ownership to professional farmers who have lived and worked in Hungary for at least three years.
- Currently foreign investors can only acquire farmland by purchasing a company where farmland is an asset of that company. However, the company structure must have been established before 1992 and the assets acquired in the company prior to the restrictions.
- Romania was also granted a seven year transitional period from accession in 2007. However, these restrictions did not fully constrain foreign investment as there were differences within countries in the implementation of this rule.

ZAMBIA

Supporting foreign investment

Zambia is seeing a strong surge in capital values through secondary market transactions of commercial farmland. In Zambia title is available through long leases of 99 years which are renewable. Zambia has proven to be stable and secure since independence and a proven secondary market of traded commercial farms underlies the tenure security.

Whilst governments are subject to change, Zambia has a proven long term policy of supporting foreign investment and commercial farming particularly through the Zambian Development Act for agricultural infrastructure projects and irrigation development.

These positive market conditions and the infrastructure investment has supported the growth of commercial farms over the past 30 years allowing the farmland market to evolve. Values reflect the political and economic situation, the infrastructure and operational development and market maturity.

TABLE 4.1

Market knowledge

Type of Market	Different issues apply	Selected countries
1. Free Market	■ There are no restrictions on foreign investment	**UK** **Ireland**
2. Free Market with the exception of regional restrictions	■ Generally, a free market although in some states/provinces foreigners may not own land and foreign ownership is restricted	**USA** **Canada** **Zambia** **Other parts of Sub-Saharan Africa**
3. Partly Restricted Market	■ In some countries, approval to buy farmland must be sought and agreed by a government organisation/agency. ■ Some governments restrict foreign ownership by imposing strict rules about who can buy land. For example in some countries buyers must have: ■ lived on a farm and or in a country for a certain number of years ■ an agricultural background ■ Countries joining the EU in 2004 and 2007 were granted seven years transitional period (except Poland with 12 years) where they generally restricted the acquisition of agricultural land (although there were exceptions on the restrictions). ■ Argentina has recently limited the amount of foreign investment. ■ In some countries there are ways to avoid the restrictions by operating through corporate structures.	**France** **Australia** **New Zealand** **Mozambique** **Tanzania** **Lithuania** **Russia** **Poland** **Romania** **Argentina** **Brazil** **Uruguay** **Hungary**
4. Fully Restricted Market	■ In a few countries, such as China and Belarus, no private ownership of land is allowed. ■ Only citizens of some countries may own farmland, such as Ukraine.	**China** **Ukraine** **Belarus** (90% of farmland is state owned)

Source: Savills Research and publicly available data

Case study

PUTTING IT ALL INTO PRACTICE

With commercial cereal operations in the Ukraine, Russia and Estonia, Trigon Agri is a great example of how to approach the business of international farmland

Interview by Ian Bailey

“Soil quality is secondary and we will happily compromise on that element for a good water supply and infrastructure”
Ülo Adamson, CEO, Trigon Agri

Trigon Agri is an integrated farming business with significant assets and operations in Eastern and Central Europe.

As we have highlighted, title, infrastructure, management and risk mitigation are core requirements to investing successfully in this market. Trigon Agri is an example of what can be achieved with suitable capital, management and drive.

An interview with CEO Ülo Adamson offers a glimpse into how this has been achieved.

Q What were the motives behind starting the business in 2006 and why did you choose Russia to launch the venture?

A Globally agricultural production is down, but the Asian markets in particular are driving an increased demand for food, especially protein as their diets become more westernised – they need to be fed from somewhere.

Russia was the right country for us to start in being relatively close to western Europe, entry prices were reasonable, large scale farming was possible and the infrastructure was fairly well established.

We feel optimistic Russia will become more integrated with Europe in terms of trade. It is attractive to investors because of the capital being invested there and there are good tax allowances. Of course there is some political risk but the attractiveness of the investment currently outweighs it.

Q How have you obtained the land required and what is the optimum size of a holding?

A We have been able to obtain the freehold interest by buying through a Russian owned intermediary investment holding company from which ownership can be obtained after two years. This makes our ownership structure very transparent.

The optimum size per holding is a minimum of 10,000 hectares but we try to cluster 3-4 blocks in one location. This means we are farming 40,000 hectares providing the best efficiency of people and machinery.

Q What has been the key to your acceptance by the local communities?

A Being attentive to social aspects connected to our farming operations has been essential. We have been sensitive and endeavoured to understand the local needs. As well as employing local people where we can we have sponsored churches and/or schools as a sign of our commitment.

Q As well as arable production, are you also growing a dairy enterprise?

A Dairy farms represent a small fragment of our business and we keep this element entirely separate from our cereal enterprises. These tend to be situated further north in Russia nearer St Petersburg where there are more consumers. We currently have two separate units with 4,000 milking cows, and our structure mirrors that used in North America. In seven years we aim to be milking 8,000 cows. We do not envisage this business moving beyond the provision of raw milk into processing because a minimum of 20,000 cows would be required.

Q How did you overcome the management and operational challenges?

A We have contractor partners but have avoided long-term projects with Russian partners; the reasons are largely based around differences in culture and long term objectives.

We employ local workforces and management teams and have drawn a lot of our expertise from Estonia who are key to the success of our management. They are the right partners for us and the local workforce have a good understanding of the local social customs and culture.

Q What about delivery and supply of inputs and machinery – has this been a challenge?

A While access to machinery and inputs is more difficult, it is not a big issue for us. This is not as efficient as we are used to in the West however, we manage with longer lead in times and neither is critical for investment.

Q We know water is a vital resource for agriculture, how important is its availability to the business?

A Access to a natural water supply and irrigation, combined with low transportation costs at a domestic level, are vital elements to our investment strategy. Soil quality is secondary and we will happily compromise on that element for a good water supply and infrastructure.

Q What is the optimum average income return on capital across the portfolio and how long does it take to achieve?

A Our target is 20%, which we believe is realistic, and where we started from a low capital base we are already exceeding this target. Where such a target is unachievable for reasons beyond our control we have tried to resolve the issue.

For example, we swapped some land in 2012 which was too far from a port. We envisage that this target should be achievable within a three to five year window of our initial investment where the investment was an entirely new holding for us, where it was an add-on we look to shortcut this to two years.

ABOUT TRIGON AGRI

An integrated producer

Trigon Agri is a listed company in Stockholm which was launched in 2006 following funds raised from Scandinavian High Net Worth Individuals. The company has gone onto acquire farms in the Ukraine, Russia and Estonia including around 167,000 ha of commercial cereal operations and two large dairy farms. The business has invested in core value chain infrastructure and storage facilities as well as sales and trading operations. It is this extensive land bank and integrated value chain infrastructure that allows the business to control their operations and sales, and ultimately grow in a challenging market.

Outlook

GLOBAL AGRICULTURE; A WORLD OF OPPORTUNITY

With the right product in the right place, farmland and agriculture around the world can offer real opportunities for top investment performance

The outlook for global agriculture remains strong. This is backed by the latest OECD-FAO medium term forecasts, and is underpinned by the fundamentals of food and energy security driven by increasing wealth in many areas. Trade in agricultural outputs is becoming, albeit slowly, freer and in many places there is less or no reliance on subsidy with the WTO driving towards more free trade and less market distortion.

British farmland remains a safe, tax efficient investment with long term returns dominated by capital growth. However, the opportunities to purchase large scale farming operations are limited by the lack of market activity. In addition, the significant presence of non-farming lifestyle and tax driven buyers means that values have become somewhat disconnected from agricultural production.

Interest in farmland as an investment comes from a diverse range of sources. These range from Sovereign Wealth Funds (National governments) who are interested in food security to private high net worth individuals, who are looking to diversify their portfolios into large scale agriculture. Family offices have already seen the opportunities presented by investing in farmland around the world and many have taken substantial positions.

Maximising performance requires investing in large scale farming operations. The world is more accessible, in terms of trade, travel, and finance, and this has opened up real opportunities where scale is not a limiting factor. For the British investor, the opportunity to take advantage of Inheritance Tax Relief on investments around the world should not be overlooked.

Barriers to entry lowered

The market is now certainly open for business with London being an important hub of activity and regarded as one of the key locations from which to work the world. Barriers to entry have been lowered with improved access to finance and a greater freedom for the movement of funds around the world. Likewise, there are now a number of entry points into the global farmland market from the less risky sale and leaseback investment to outright acquisition.

The right product in the right place can result in income returns several times those achievable in Great Britain. Top this with strong capital growth and the potential performance becomes hard to beat, but as with any investment there are risks.

Infrastructure and location is vitally important to ensure cost efficient access to domestic and export markets. This is an issue in the emerging markets, but one that is increasingly being addressed by governments and external funds who are investing in national infrastructure thereby opening up more opportunities and routes to market.

Although top quartile farming is the main driver for investment, in many locations there are opportunities to link the global demand for food production with that of energy. Increasingly, we expect these two fundamental human needs to co-exist.

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