savills

Savills World Research
Rural

Spotlight
US Farmland

2015

Prime investment zones
Map pullout

Right product, right place
US agriculture offers opportunities for investment performance

savills.co.uk/research

Glossary
USDA: United States Department of Agriculture
NCREIF: National Council of Real Estate Investment Fiduciaries
IPD: Investment Property Databank

US data often uses bushels rather than tonnes. These are crop specific as examples for key crops in table below:

Wheat	36.8 bushels per tonne
Corn	39.4 bushels per tonne
Soybeans	36.7 bushels per tonne

Fallow (see Graph 1) - Includes land in cover and soil-improvement crops and cropland on which no crops were planted. Some cropland is idle each year for various physical and economic reasons. Acreage diverted from crops to soil-conserving uses (if not eligible for and used as cropland pasture) under Federal farm programs is included. Cropland enrolled in the Federal Conservation Reserve Program (CRP) and Wetlands Reserve Program (WRP) is also included.

This publication
This document was published in May 2015. 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. We have used a standard set of notes and abbreviations throughout the document.

Foreword
UNLOCKING THE FULL POTENTIAL

Prime investment zones
Map pullout

Agriculture is a complex and globalised industry where investment is usually medium to long term

In this our fourth continental Spotlight, the others available being Ireland (2011), Australia (2012) and Sub Saharan Africa (2013), we have decided to look at the US with the help of our Associate, John Cottingham, who has lived and operated in the market place for many years.

The key to successful investment in any farmland market is an understanding of its agricultural industry. In a mature market, such as the US, information is readily available providing data for enterprise profitability, domestic and international trade, infrastructure and the key agronomic variables which include market and climatic volatility. The knowledge accrued from this information will underpin the risk and return profile to match the investor criteria whether they be private or institutional.

The US is an established market given its level of maturity in terms of global agriculture and farmland values versus other countries. It operates against a background of political stability and a strong currency. Furthermore, farm incomes have surged over the past decade through a combination of booming commodity markets and low interest rates, but we see that on sound analysis, a clear set of investment criteria and selecting the right product the US still has rewarding farmland investments to offer. Maximising the performance of farmland as an asset in the US is closely linked to enterprise and therefore regional choice. The question is when and in which region to invest?

Investors in agricultural land are generally looking for ways to benefit from the worldwide demand for food and energy linked commodities. With the US at the forefront of world production and export, the market deserves consideration.

We have focused our analysis on the regions where we believe the best opportunities are currently. We classify the best opportunities according to productive enterprise and focus in on the top performing productive assets available in the US for that particular enterprise.

The US farmland market is multi-faceted in terms of enterprise size, soil type, water availability, ownership structure and varying foreign investment policy on a state-by-state basis. This report identifies the constraint on investment performance and illustrates the 'real' opportunities available, which can be tailored to the needs of both private and institutional investors via a range of investment vehicles. For example, the private investor whose criteria is based on commodity production and has the ability to acquire scale, with the potential for growth through further aggregation during the term of investment, may concentrate their search in the Corn Belt. Whereas those looking for more specialist cropping ring fenced opportunities might be drawn to the lower reaches of the Mississippi or the productive permanent crops of California.

There are many challenges and obstacles to overcome in order to unlock the full potential of US 'land capital', but with the right knowledge and strategy, farmland investors have the ability to acquire assets of significant value and potential. We hope that this Spotlight proves of interest and, if so, that you will contact us if you would like to explore opportunities further.

Hugh Coghill
Director
International
Land Markets
+44 (0)20 7016 3818
hcoghill@savills.com

EXECUTIVE SUMMARY

With a land area of 1.7bn acres, US farmland offers a rich diversity of agricultural output
See pages 4/5

There is a wide variation in profitability across different crop types in US farming
See pages 6/7

Average farmland values are strongly correlated with commodity price movements
See pages 8/9

Understanding policy on overseas ownership is key to successful investment in US farmland
See pages 14/15

US farmland continues to outperform other investments, such as residential property and retail
See page 16

Geography

THE SIZE OF US AGRICULTURE

With agricultural land accounting for nearly three-quarters of the US's total land area, it offers a rich diversity

The total land area of the US is around 2.3 billion acres (9.2 million sq km) (almost 40 times larger than the United Kingdom). Of this, 1.7 billion acres are used for agriculture (arable, forestry, permanent crops, permanent pastureland). The agricultural land accounts for 74% of the total area of land in the US, which is a similar proportion to that in the UK. Forestry covers almost 40% of the agricultural area. Graph 1 shows US agricultural land use.

The geographic spread of farm production across the US is shown on Map 1. As would be expected, these regions do not follow state boundaries, although there are concentrations of farming types within the states.

24% of the agricultural area is used for crops of which corn (maize for grain), soybeans and wheat are most significant, accounting for 21%, 19% and 11% respectively of the total cropland. Corn is the most widely produced feed grain in the US, with most of the crop providing the main energy ingredient in livestock feed. Corn is also processed into a wide range of food and industrial products including fuel ethanol. Over 60% of total cropland is located in three areas, namely Heartland, Northern Great Plains and Prairie Gateway (Map 1).

The grassland is grazed by 9.3 million dairy cows plus followers with an average herd size of just over 115 cows, although the majority (74%) of US dairy farms have less than 100 cows. Farms with more than 100 cows produce 85% of the milk. US milk production is concentrated in the Northern Crescent and in California. The beef industry is substantial with 95 million breeding beef cattle plus followers. However, almost half of these cows are concentrated in herds of over 1,000 head. Although cattle are widespread (Map 1), beef production is mainly in Texas, Iowa, California, Florida, Nebraska and Kansas. The USA sheep flock is very small with just 5.5 million breeding sheep compared with 15.6 million in the UK.

Productive agriculture

Although soil quality varies across the USA, and is reflected in farmland values (see page 8), the continent does have some of the most fertile soils for cropping in the world. Land is classified into 'Land Capability Classes' which rate land from one to eight on agronomic factors which include landscape, slope, depth and texture of soil. Under good management, Classes 1 to 4 are able to support the main field crops including grass without a reduction in the soil's long term productivity. Classes 5 to 8 have limited use for commercial farming and are mainly pasture, range and forestland. These do often provide environmental and leisure opportunities.

The US generally has favourable climates for productive agriculture and water availability is good. This is either from natural sources or large scale irrigation systems. However, future water security is high on the policy agenda to ensure the long term growth of the agricultural industry.

Managing climate change risk has become the most pertinent issue for worldwide agriculture in recent decades and has encouraged research and development into better management and implementation of technology to mitigate climatic risk. The US is at the forefront of government research into agriculture and a privatised industry dedicated to research and development: this helps provide more streamlined results and motivation to continue improving efficiency across agricultural markets.

In many respects, the agricultural sector in the US is unique with market characteristics that are not typical or as pronounced as some other major developed world exporters. For example, 60% of the total value of US agricultural production comes from just three regions which are very output specific with highly intensified production. These are the Heartland, the Fruitful Rim and the Northern Crescent.

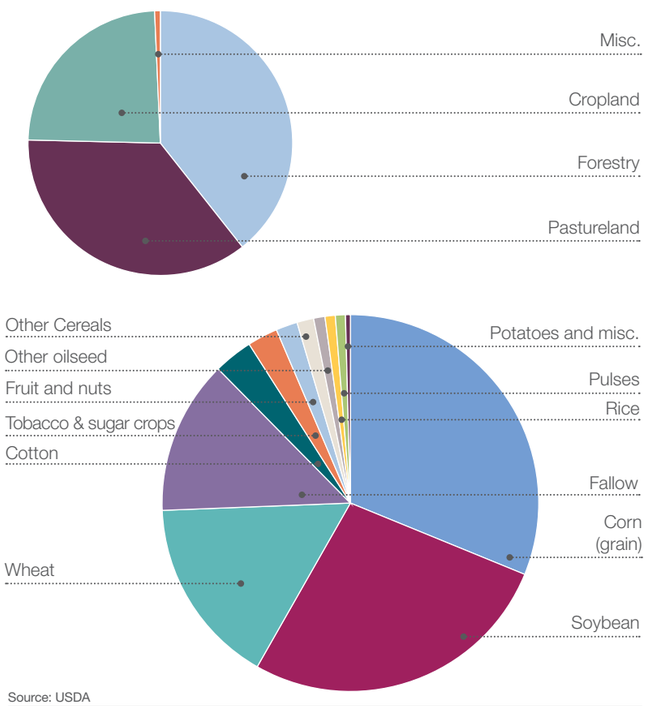
KEY FACTS

US agriculture

- The US has more arable land within its borders than any other nation on earth at around 160 million hectares just above that of India.
- As in many areas the trend is for fewer farms and higher levels of aggregation producing an increasing share of the agricultural output.
- The US is the world's largest producer and exporter of corn, wheat, soybeans and livestock in both volume and income.
- Grains and oilseeds represent a third of the total agricultural sales in the US
- The US has always maintained an export surplus over imports.
- The US accounts for a quarter of total world GDP from agricultural products. Only surpassed by the entire market of Europe (30%).
- In states where ownership is unrestricted absentee land owners account for 60% of land ownership and these tend to specialise in crop production.
- Whereas livestock production tends be structured in an owner operator set up.

GRAPH 1

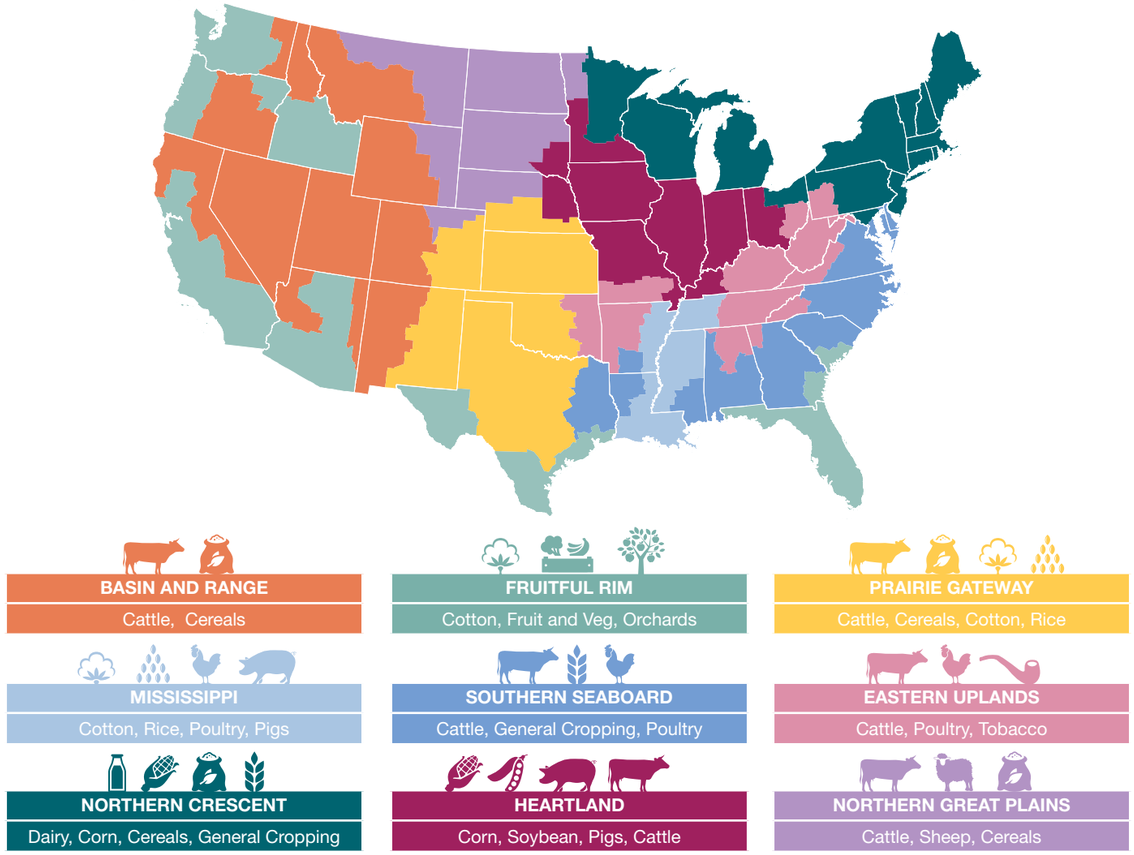
US agricultural use



Source: USDA

MAP 1

US farming regions



Source: USDA

Market dynamics

WEATHERING THE ECONOMIC CLIMATE

There is a wide variation of profitability across different crop types in US farming

Agriculture operates in a global market and prices (input and output) are influenced by factors around the world and these impact on farm profits. In addition, agriculture is a complex business and the farm operator can make the difference between success and failure. There is a wide variation in profitability across farms but to maximise investment performance operators must strive for or be in the top quartile of performance.

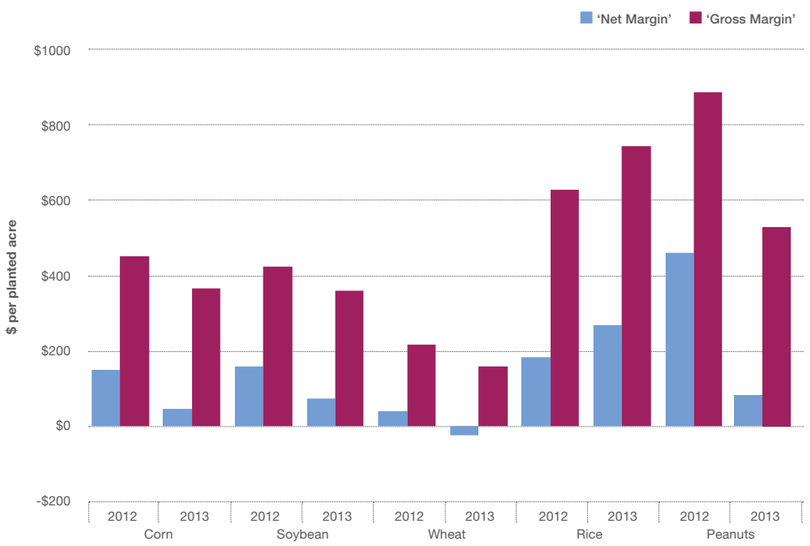
Of the main 'cash grain' crops, corn and soybean are more profitable than wheat, but specialist crops (Graph 2 and boxout) such as rice and permanent crops offer higher rewards but with significantly higher production costs and capital requirements. We focus on cropping but there are opportunities in intensive (pigs, poultry) and extensive livestock (cattle) operations.

Agriculture is a medium to long term investment and apart from the annual weather variations commodity price volatility must be factored into business plans. This has increased over the past 10 years (Graph 5) as the supply/demand balance has tightened.

A major drought in 2012 caused a significant spike in corn and soybean prices, which followed a long period of relatively stable prices with low volatility. The long term price trend has been positive and we expect this to continue with increasing volatility.

"A major drought in 2012 caused a significant spike in corn and soybean prices"
Ian Bailey, Savills Rural Research

GRAPH 2
Average US crop margins



Source: USDA

Range of crops

Apart from the range of profitability across different crops, there is also a range within crops across the regions of the US. Soil types, climatic conditions, scale and proximity to key transport links and storage facilities are all factors which contribute to these variations. Graph 3, using corn as an example, illustrates some of these variables across the two key corn-producing farming regions (Map 1).

Higher average crop yields and financial performance are recorded in the Heartland despite the average enterprise size being lower than the neighbouring regions.

Our analysis of this region shows that enterprise size has been growing faster, to increase efficiencies of scale, and has increased by 40% since 1996. This is in contrast to the Northern Great Plains (30%) and the Prairie Gateway (8%).

The Heartland is close to key transport links through the Mississippi river and benefits from good soils and climatic conditions, which all contribute to higher performance.

These provide a good foundation for further performance growth and efficiencies (page 13) using the latest technologies, which include improved genetics combined with soil and plant mapping using GPS to maximise input efficiencies and a sustainable use of resources.

Government support

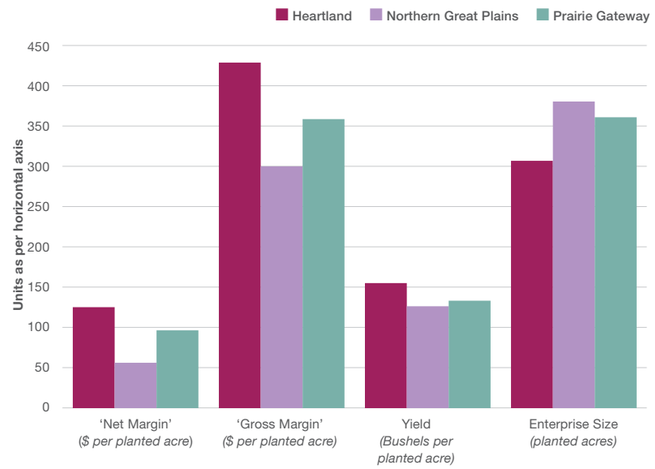
US farmers receive government support and these payments are regarded as an important contributor to farm incomes. These were expected to bring the total payments down, but lower than forecast corn prices have had the opposite effect and total payments in 2015 are expected to exceed $12 billion.

In addition, there has also been a shift from 'Fixed Direct Payments' to 'revenue based crop insurance' as illustrated in Graph 4.

Non-farming landowners are, on average, able to capture a share of these subsidies. There is also federal funding in place for agriculture but the levels of funding vary significantly between states.

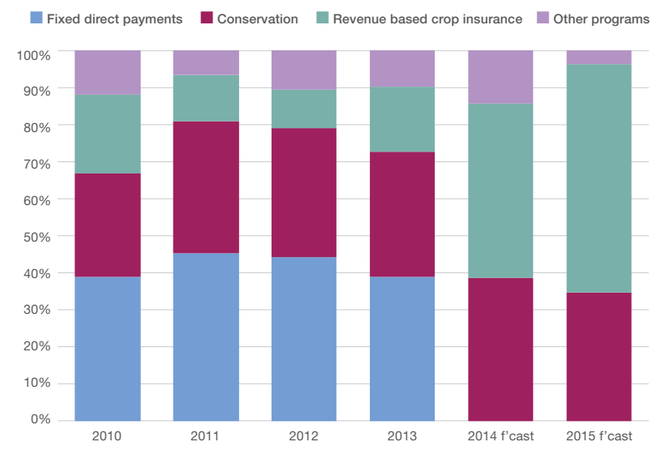
The bulk of this federal funding is tending to support smaller farms. This helps to maintain the social fabric of rural areas through being delivered to states which do not have as large scale production, and represent small proportions of the total export income from agriculture.

GRAPH 3
Corn enterprises factors across the key regions (average 2009 to 2013)



Source: USDA

GRAPH 4
Proportion of US subsidies by key programs



Source: USDA

SPECIALIST CROPS

Some key facts

- High value crops include rice, cotton, tree nuts (such as almonds, macadamia and pistachio), orchards, soft and citrus fruit, vegetables and grapes.
- These crops tend to be intensively cropped and regionally located (see map on page 5). For example California, according to USDA statistics, was the leading fresh market for vegetables and melons in 2014 producing 60% of the total US value of these crops.
- The abundance of water, including for irrigation, in the Mississippi Delta creates the opportunity for intensive field cropping. Key crops are cotton and rice but the agronomic conditions are ideal for a variety of high value crops.
- High value crop production is a viable alternative to commodity cash crops but it often requires:
  - increased management and marketing skills
  - higher capital and labour input
  - dedicated storage and distribution facilities – the output is often perishable – specialist markets and an increased presence along the supply chain
- As with any investment decision, deciding between commodity cash cropping and more intensive high value farming operations is all to do with managing the risk and return profile

Of the main 'cash grain' crops, corn and soybean are more profitable than wheat

Speciality crops offer higher rewards but with significantly higher production costs

Farmland markets
VARIATION IN FARMLAND VALUES

Open to see US Farmland's Prime Investment Zones

Average farmland values in the US are strongly correlated with commodity price movements

Farmland values are highly dependent on land and soil type, productive capacity and access to markets and hence vary significantly between states (see Map 3) and locations within states. Average farmland values are strongly correlated with commodity price movements (Graph 5), although there is often a time lag and land values are minimally affected by short term fluctuations and shocks to commodity prices.

In the US, values, in contrast to the UK, are generally not influenced by demand from non-farmer or 'lifestyle' buyers except in areas close to population centres.

The effect of the diverse demand profile for UK farmland compared with other countries where values are much more closely correlated to farm output and commodity prices is significant. The graph shows farmland values in domestic currency to eliminate any exchange rate effect.

Since 1950, average values across the US have recorded an annualised increase of 6.6% with an increased rate of growth during the past 10 years, despite a correction in 2009, of 8.1%. The corresponding figures for UK farmland are 7.5% and 13.7%.

These figures reflect the increased presence of non-farming/investor buyers competing with the farmer buyers, which has ensured steady growth over the past decade without any pause. In the US, farmers represent three quarters of buyers with investors making up the final quarter.

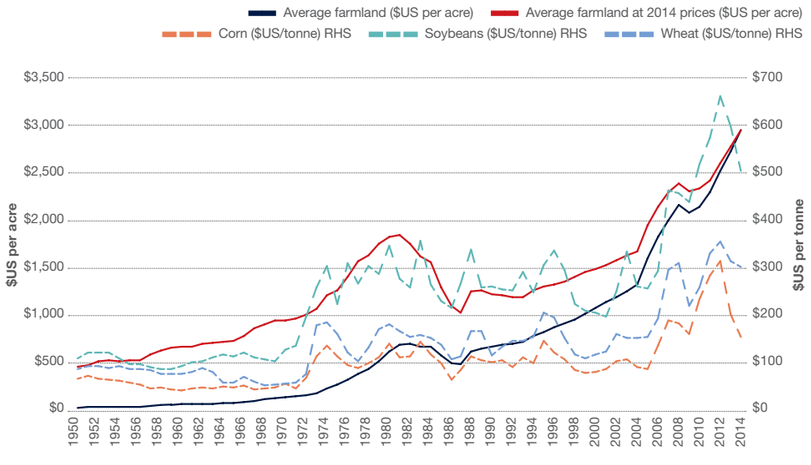
Average farmland values across the US are now almost $3,000 per acre with average cropland at just over $4,000 per acre and pastureland at $1,300 per acre. Values are closely correlated with the productive output, with the highest average cropland values in the Corn Belt at $7,000 per acre with Iowa recording $8,750 per acre. The wide variation in average values between states is illustrated on Map 2. The average hides a wide range of values and driving crop yield productivity gives long term gains in asset performance.

There is little data available on the amount of farmland sold every year in the US. However, anecdotal evidence suggests that market activity has historically been very thin, with some estimates indicating that only around half of one percent of US farmland is sold each year.

As in the UK, studies suggest that farmland sales generally only occur due to death or retirement rather than a result of affordability levels. In 2012 USDA reported that many farming families rely on holding land for a retirement fund. In addition, the report noted that relatively little privately owned farmland (1.7%) in the US is under overseas ownership – see page 14 for more detail.

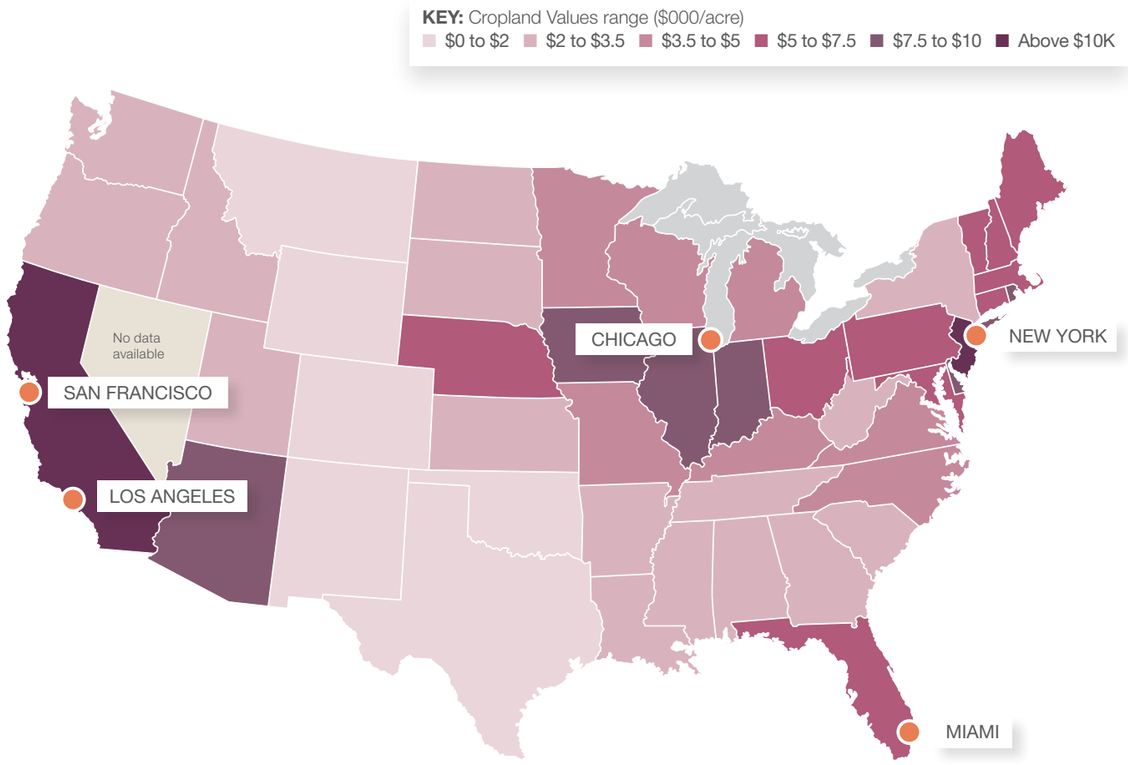
> "Anecdotal evidence suggests that market activity has historically been very thin"
> Ian Bailey, Savills Rural Research

GRAPH 5
US farmland correlated with commodity prices



Source: USDA and Savills Research

MAP 2
Map showing 2014 average cropland value range across US states

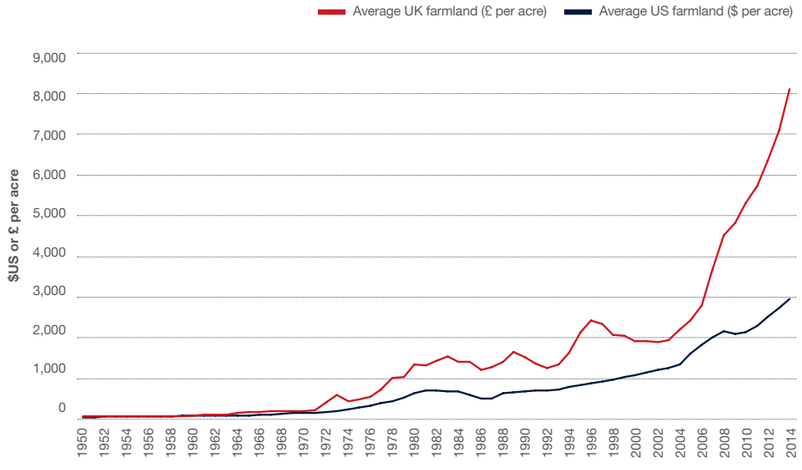


Source: Savills Research

Average farmland values across the US are now almost $3,000 per acre

Highest average cropland values in the Corn Belt stand at $7,000 per acre

GRAPH 6
US farmland values more closely aligned with farm output



Source: USDA and Savills Research

Income yields
LEASING VS OWNER OPERATED

Farming the land in hand will give an income yield premium, while leasing mitigates climate and price volatility risk

Income is an important part of the overall investment performance. Where the farmland value is predominantly driven by productive capacity, as in the US, income yields of 3% to 5% are achievable in the key agricultural areas of the USA (Graph 7).

In contrast, in the UK where non-farming drivers of value are strong, resulting in relatively higher capital values, income yields are typically 1% to 3%.

Farming the land in hand rather than leasing to another operator usually gives an income yield premium as illustrated in Graph 7. However, leasing does mitigate the risks associated with commodity market and climatic volatility.

Within the Corn Belt, 60% of the agricultural land is leased and with a high proportion of absentee land ownership. Professional farmers lease the land and accept the commodity market and climatic risk, while the landowner earns 3% to 4% rental income. Graph 7 shows the risk reward the leaseholder takes and shows the differences between the owner-operator structure and the absentee landlord. In states with relatively low climatic volatility, such as Illinois, there is a close relationship between rental income and farm level net income. However, in the states where the climate is more volatile, such as Louisiana or Michigan, there is a clear gain for the leaseholder.

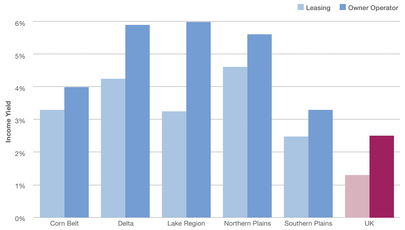
Since 2009, average rental growth for cropland has been stronger (7% to 10%) in the Northern Plains and Corn Belt regions than in the Southern Plains and Delta regions where average cropland rents have increased by 3% to 6%. This is a similar pattern to that recorded for farmland values, which is discussed on pages 8 and 13. However, rental growth has generally been slower than cropland capital growth across most regions leading to compressed rental income yields. This mirrors the trend in the UK.

The US market generally has shorter leasehold periods when compared to some other markets. The length of leases in the US are usually of three to five years in order to avoid declining rental yields and to maximise investment returns. In the UK, farm leases at market levels average between five and ten years.

One of the main challenges for new entrants into the agricultural sector, alongside understanding the investment opportunities and risks, is establishing how to invest in this relatively illiquid asset class in a way that meets the requirements of the investor. Private and institutional investors will have differing requirements. The main investment options are either through a managed fund or by direct investment. As mentioned above the latter can be by land ownership with land leased to farm operators or through operational farming on owned or leased land.

GRAPH 7

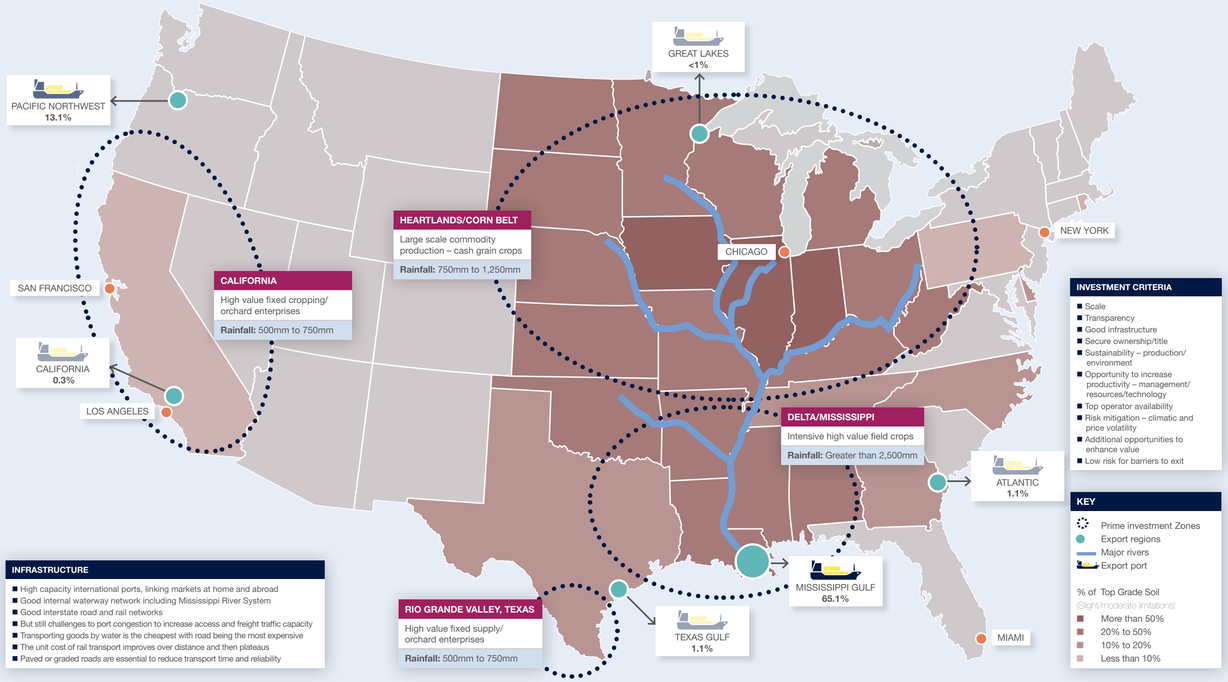
Average leasing vs owner operated income yields by US region



Source: USDA and Savills Research

MAP 3

Identifying investment opportunities Soil type, climate and access to markets are all important factors



Source: Savills Research

US FARMLAND CASE STUDY

The Corn Belt is ideal for the private or smaller scale investor by John Cottingham

KEY FACTS	
Location	Corn Belt — Central Illinois
Purchased	1997
Topography	Class A soils
Acquisition	421 acres
Initial Investment	$1,481,336 ($3,518 per acre)
Current Market Value	$4,800,000 ($11,398 per acre)
Income over 18 years	$1,118,701 (2014 income $137,778)
Lease-type	50/50 crop-share
Crop Structure	Dry land cropping
Rainfall	Annual average 36 inches

The Corn Belt is ideal for the private or smaller scale investor. It offers scale and the ability to aggregate land investments to create large farming units. The states of Illinois, Indiana and Ohio present the best opportunities.

Our case study is a 420-acre farm which is well situated within the Corn Belt, benefiting from the class A soils and relatively little climatic volatility that is typical of the US Midwest. Businesses tend to be mixed cropping focusing on corn and soybean production.

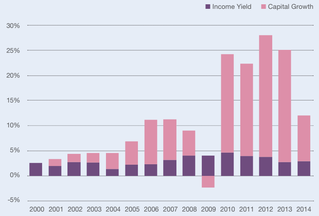
The region has seen significant capital growth in land values over the past twenty years, which is illustrated in this case study. The long term gains in asset performance (see Graph 8) are primarily the result of crop yield productivity due to adoption of technology such as hybrid seeds and highly mechanised production. This gain over time is capitalised into the land value despite short to medium term commodity price volatility.

Increasing crop yield has been a key driver in the performance of this investment.

With a 15-year average annual capital growth rate of 8.4% and income return of 3% per annum, the agricultural portfolio has been a sound investment over the long term. However, recent performance of the past five year both in terms of capital growth and income return of 15.4 % and 3.7% respectively per annum clearly shows the benefits of the productivity gains. This reinforces the fact that investing in farming should be viewed as a long term investment to ride out the cycle of price volatility and maximise the capital investment in realising productive gains.

GRAPH 8

Investment performance of Case Study Farm



Source: John Cottingham: Agricultural Investment Associates

The average corn yield during the first five years (1996-2000) was 174 bushels per acre

The most recent five years (2010-2014) was 192 bushels per acre (3.4 tonnes per acre)

The past five years has included the 2012 drought yield of 139 bushels per acre

Ownership

A QUESTION OF OWNERSHIP

Understanding policy on foreign ownership is key to successful investment in US agricultural land

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

In addition, as the interest in overseas ownership of agricultural land increases, the rules can and do change. Lobbying from local communities or a new government policy can lead to a change in the regulations relating to purchasing and impact on the exit strategy of any investment. This is very unlikely in the US.

Indeed, there is very little to no political risk in terms of investment in the US. The most prevalent issue for investment into farmland here is title rights but the risk is reduced by the ability to purchase title insurance upon purchase of land.

The US has more than adequate access to country credit, policy transparency, fair taxation and loan accessibility. However, US fiscal policy is state-based and some states have better fiscal policies than others.

Farmland has always been a relatively illiquid asset when compared to commercial or residential property markets. As in the UK, the US agricultural and farmland markets are generally highly accessible and transparent with good access to trade organisations and market information.

Currently relatively little US farmland is held in direct overseas ownership and, in 2012, this accounted for just 1.15% of all farmland across the US. The largest proportion of overseas ownership is concentrated in Maine. Table 1 shows the proportion of farmland in each state under overseas ownership.

In contrast to the UK where there are no restrictions on Foreign Direct Investment (FDI), there are some states and provinces in the US where overseas ownership is restricted. US subsidies are not available to overseas individuals and entities. In addition, the Agricultural Foreign Investment Disclosure Act requires the disclosure to the Secretary of Agriculture of farmland purchased by overseas buyers in the United States.

These restrictions should not deter investors who wish to purchase farmland in the US. There are opportunities in the key agricultural regions for both the private and institutional investor. ■

"Relatively little US farmland is held in direct overseas ownership"
Ian Bailey, Savills Research

1.15%
Level of foreign ownership in all US farmland

The largest proportion of overseas ownership is concentrated in Maine

There is very litttle political risk in terms of investment in the US

TABLE 1
Foreign Ownership
(% of farmland)

State	% age of FDI
Maine	14.74%
Alabama	4.79%
Washington	3.91%
Hawaii	3.87%
Louisiana	3.54%
Florida	3.35%
Michigan	2.52%
Arkansas	2.49%
Georgia	2.46%
Mississippi	2.08%
South Carolina	2.06%
Texas	1.72%
Ohio	1.60%
Colorado	1.56%
North Carolina	1.45%
New York	1.37%
Tennessee	1.37%
Vermont	1.31%
Oregon	1.28%
New Mexico	1.26%
Illinois	1.08%
California	1.06%
Indiana	1.01%
Kansas	1.00%
Minnesota	0.80%
Maryland	0.77%
Pennsylvania	0.73%
Oklahoma	0.73%
Nevada	0.72%
Iowa	0.66%
Wisconsin	0.65%
Montana	0.62%
Virginia	0.55%
West Virginia	0.54%
Wyoming	0.51%
Missouri	0.48%
Arizona	0.39%
New Jersey	0.30%
Kentucky	0.26%
North Dakota	0.24%
Delaware	0.22%
Idaho	0.18%
Nebraska	0.18%
Utah	0.17%
Massachusetts	0.10%
Alaska	0.07%
Connecticut	0.04%
Total US	1.15%

Source: USDA and Savills Research

PLANNING AHEAD

What you need to know

An investment in the US requires consideration of UK and US taxation and reporting obligations. Investing in the US might seem potentially perilous, with its patchwork of federal, state and local tax and regulatory regimes that can vary widely in scope and effect. But this minefield can be successfully navigated with a bit of advance planning. Investment in US farmland can be efficiently structured to preserve the UK tax advantages of investment in farmland while allowing investors access to the US market.

■ Like the UK, the US imposes an estate tax on persons holding US assets at death. This tax applies to US assets with a value in excess of a mere $60,000 threshold, at a rate of 40%. Some US states also impose their own state level estate tax, though at much lower rates (with a typical maximum of 16%). Unlike the UK, there is no relief for business or agricultural property.

■ Therefore, a key consideration for UK domiciliaries investing in US farmland will be to structure their investment to restrict taxes on death to those payable in the UK and US. The most attractive method is to invest via a corporate structure, which may block the attribution of estate tax to any particular person. Alternative ownership structures include trusts or partnership, which are commonly used in the US, but may not be as tax-efficient to the generational investor.

■ Care also needs to be taken when considering the US income tax (which also applies to capital gains) implications of an investment. Investments through non-corporate entities (that is, investments by individuals and by trusts) are taxed at a maximum federal rate of 39.6% for 'ordinary' income (which includes business operating income) and 20% for so-called long-term capital gain.

■ Investments by corporate entities are subject to a maximum 35% tax rate at the corporate level (with no preferential tax rate for long-term capital gain), plus potentially an additional 30% tax at the shareholder level. There may also be state level income tax.

■ However, UK investors are particularly well placed to make investments in the US through corporate entities because the UK has both a favourable income tax treaty and a favourable estate and gift tax treaty with the US. These treaties can reduce the 30% shareholder level tax to as low as 5% and can block imposition of US estate tax. Credit can also be given for the US tax suffered against any UK liability.

■ As an added attraction, hold over relief on the reinvestment of the sale proceeds of UK farmland can apply to purchases of US farmland, as there is no geographical restriction to this relief.

Words: Bertie Hoskyns-Abrahall, Withersworldwide

Investment
FARMLAND OUTPERFORMS ALTERNATIVE INVESTMENTS

US farmland continues to outperform other investments, such as residential property and retail

US farmland has outperformed other US real estate assets over the past 15 years as illustrated in Graph 9. The National Council of Real Estate Investment Fiduciaries (NCREIF) Farmland Index showed a total return of 13% for agricultural properties bought as investments over the past 15 years with the high commodity prices over the past three years contributing to exceptional performance.

The dip in the five year performance illustrates the exposure to climatic and price volatility but also shows the resilience of farmland to recessions compared with commercial and residential property. These asset classes recorded significantly negative total returns during 2008 and 2009 due to falling capital values in these sectors.

Although there has been volatility in farmland investments it has not been as significant as commercial and residential property as shown on Graph 9. This illustrates the relatively low risk combined with a strong return. Apart from forestry, farmland has been the least volatile but annualised returns over the past 15 years more than doubled.

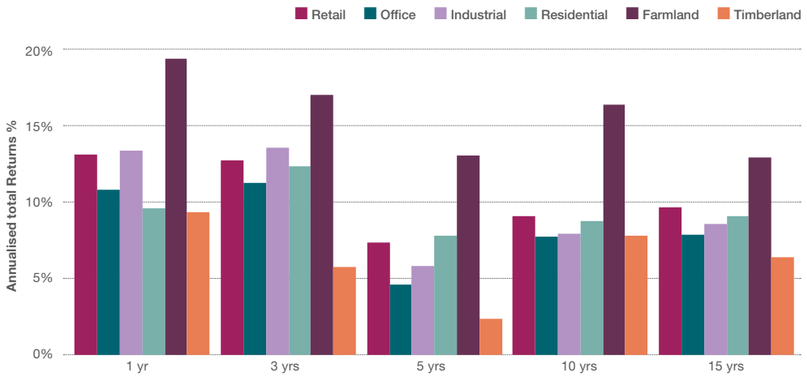
The risk and return profile of US commercial and residential investments show more volatility and a lower return over the past 15 years. Our analysis points to a levelling out of this volatility over the past three years as performance has improved, also shown in Graph 10.

In the UK, the trend has been similar, but slightly more muted, with the investment performance of farmland (in hand farming and let land) outperforming most other assets over the past 10 years and has been comparable with alternative assets over the past 15 to 30 years.

The strong performance of farmland, its relatively low risk over the medium to long term and its inverse correlation to alternative assets ensures it provides added value to a mixed asset portfolio. We expect the investment performance of farmland to remain strong although we do expect it to become more comparable with commercial and residential property over the next few years as the macro economic situation improves.

GRAPH 9

Farmland compared with other real estate assets (1999 to 2013)



Source: IPD, NCREIF and Savills Research

GRAPH 10

Investment risk and return (15 years: 1999 to 2013)

Source: IPD, NCREIF and Savills Research

US Cities
GLOBAL INVESTORS ARE LOOKING WEST

The US's five world cities attract a wide range of overseas investment for a variety of different reasons

Words: Yolande Barnes

Global investors and occupiers are now more focused on the US as a region that looks relatively sheltered from the headwinds blowing from across the rest of the world. It may have remained longer in recession and seen its real estate markets fall significantly after 2007, but both the economic and real estate recovery have been marked.

Savills 12 Cities report takes a look at its following world cities; New York, San Francisco, Chicago, Los Angeles and Miami, which each have their own characteristics but are known globally. As such, they command world city status and attract, for different reasons, a wide variety of overseas investment while playing host to a wide range of international companies and enterprises.

US World Cities at a glance

- **Chicago:** Finance, publishing, medical services
- **San Francisco:** Technology, tourism, bio-tech
- **Los Angeles:** Media and entertainment, port services, education
- **Miami:** Tourism, construction, Latin American regional HQs
- **New York:** Finance, business services, entertainment

Demand for commercial space is across the board for these cities but they are diverse in what they offer the occupier. New York and San Francisco are fast growing talent magnets while Chicago continues to supply corporate headquarters for big hitters. Miami has attracted the research institutes, medical and life sciences and Los Angeles is different again – cheaper space for backroom and corporate America. Collectively, office rental growth in 2014 was strong and with continued GDP and job growth is likely to stay that way.

Unlike many global cities US real estate markets are highly domestic in nature and although are capable of attracting foreign capital are not hugely reliant on it. Consequently, the strengthening dollar has not quenched the demand from buyers as US real estate values become more expensive in a global context.

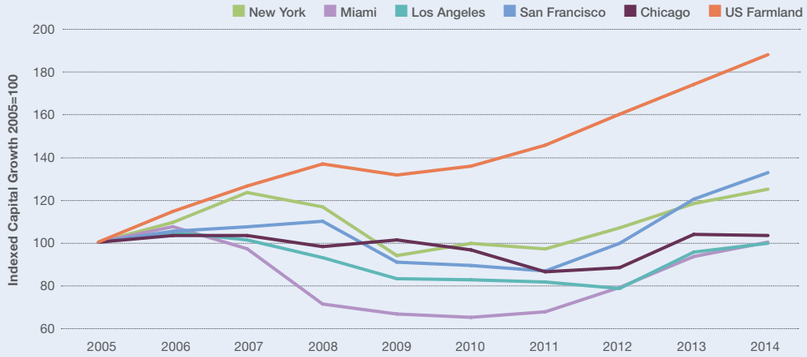
Counter-intuitively some investors looking for safe haven stores of wealth in solid currency will draw comfort from the strength of the dollar. Increasingly, Asian investors, for example, who are starting to see their own region and European cities, notably London, appearing fully valued are casting their nets US-ward.

Yolande Barnes is Head of Savills World Research. This content first appeared in 12 Cities publication.

GRAPH 11

Farmland outperforms US City Residential

(Capital growth indexed 2005 =100)



Source: USDA and Savills Research

Outlook

RIGHT PRODUCT, RIGHT PLACE

With the right product in the right place, farmland and agriculture in the US can offer real opportunities for top investment performance. This is underpinned by the fundamentals of food and energy security.

However, commodity price fluctuations are likely to have a more direct effect on value growth in the US where values are closely related to farm profits, this is in contrast to areas where the demand from non-farmers is a real driver such as the UK.

As reported on pages 8 and 13, variations in current value and growth over the past decade have been significant. The main grain producing areas have recorded the fastest value growth. However, we expect the current fall in commodity prices to reduce profits and for cash flow pressure to have the greatest impact here. Also around a third of corn production is used to produce ethanol. Therefore, any falls in ethanol and overall fuel use is likely to add more pressure to prices.

Levels of debt are now lower than in the 1980s and the latest five-year farm bill signed in February 2014 will reduce exposure to commodity price volatility. When combined with relatively low farmland supply all these factors will help support any short term downward pressure on values.

Serious consideration

US farmland should be a serious consideration for investors looking for scale, high value niche markets, and the opportunity for a reasonable income yield, these are difficult to achieve in the UK, as well as medium to long term capital growth in a mature and transparent market.

In addition, the US is accessible in terms of trade, travel, and finance, and purchasing US farmland can preserve UK tax advantages for the UK investor. We expect demand from these buyers to also add a level of support to the US market, especially as there are significant sums of money available to diversify relatively small proportions of total investment portfolios.

Other opportunities to enhance value including strategic development and minerals should not be discounted. Although, due to the size of the US, these are significantly fewer than in more densely populated countries such as the UK and tend to be long term in nature.

Levels of debt are now lower than the 1980s

Savills team

For further information please contact

Ian Bailey
Head of Rural Research
+44 (0)1797 230 156
ibailey@savills.com

Nicola Buckingham
Research Analyst
+44 (0)1398 332 170
nbuckingham@savills.com

Hugh Coghill
Director, International Land Markets
+44 (0)20 7016 3818
hcoghill@savills.com

James Cairns
International Land Markets
+44 (0)20 7016 3819
jcairns@savills.com

Matthew Sheldon
International Land Markets
+44 (0)20 499 8644
msheldon@savills.com

Steve Coutts
Head of National Research
+1 (212) 326 8610
scoutts@savills-studley.com

Agricultural Investment Associates Inc.

John Cottingham
Ag Investment Associates
+0 (847) 251 8822
johncottingham@mac.com

John Cottingham
John Cottingham is co-founder and President of Agricultural Investment Associates Inc. (AIA) based at the firm's headquarters near Chicago. He provides personal service for domestic and international clients and works with their advisors to manage their farmland assets.

Jerry Ahrens
Ag Investment Associates
+0 (830) 257 2827
ahrens@ktc.com

Jerry Ahrens
Jerry Ahrens, Vice President of Agricultural Investment Associates Inc. manages AIA operations in Kerrville, Texas. He is a native of Texas and brings a background of finance, agricultural asset management and real estate brokerage to the organisation.

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

33 Margaret Street
London W1G 0JD
+44 (0)20 7499 8644

savills.com

savills