



HAS FARMLAND DELIVERED ON ITS INVESTMENT PROMISE?

INTRODUCTION

Since the onset of COVID-19 in early 2020, the global economy has experienced one of the deepest recessions in decades and, for some countries, one of the fastest economic recoveries. Synchronized economic stimulus has been followed by the highest rate of inflation in Australia since the late 1980s, an unprecedented increase in interest rates in Australia and elsewhere, and the end of Australia's longest uninterrupted period of economic growth.¹

The changes in the economy over the past three years provide an ideal backdrop from which to analyze the performance of farmland assets. This paper examines the investment resilience of farmland over the longer term and the performance of the farmland sector during a period in which inflation has reached a 32-year high.

A DISRUPTIVE PERIOD

The period between January 2020 and December 2022 will be remembered not only for the economic disruption witnessed from the global COVID-19 pandemic, but also for the escalation in the military war in Europe and the ever-present yet potentially increasing trade, technology, capital, and geopolitical tensions between the US and China.

OVERVIEW OF ECONOMIC DISRUPTION SINCE 2020²

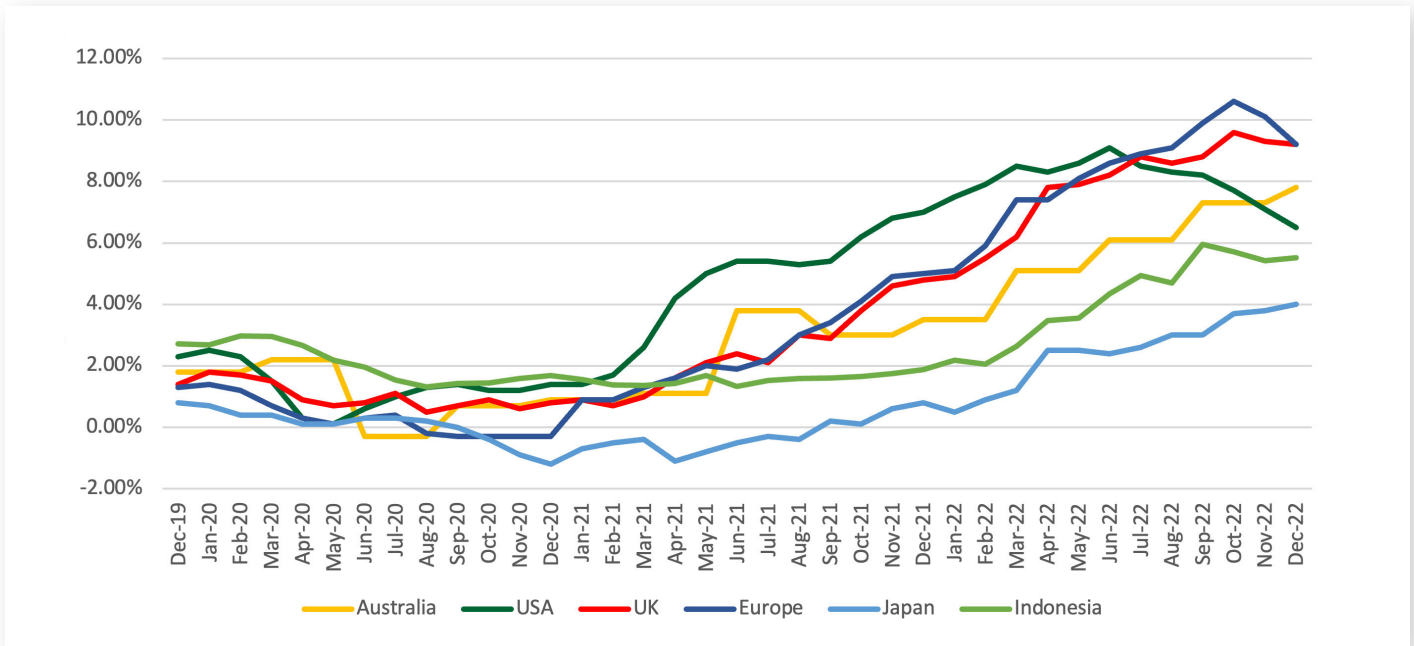


¹ Bloomberg, 2020, World's Longest Growth Streak Ends as Australia Enters Recession.

² World Bank, Chart Book: Tracking the Post-Great Recession Economy | Center on Budget and Policy Priorities (cbpp.org) Measures of Consumer Price Inflation | RBA Cash Rate Target | RBA | S&P Down Jones Indices.

Australia's inflation rate trended in a direction similar to many western economies peaking at 7.8% in December 22. This compares to a peak of 9.1% in June 22 in the US, 9.6% in October 22 in the United Kingdom and 10.6% in October 22 in Europe.³

CONSUMER PRICE INDEX, SELECTED COUNTRIES, JANUARY 2020 TO DECEMBER 2022



FARMLAND HAS PROVIDED CAPITAL PRESERVATION ACROSS ECONOMIC CYCLES

During the Global Financial Crisis, the OECD noted that “because food is a basic necessity, the agriculture sector is showing more resilience to the global economic crisis than other industries”.⁴

One of the longest and largest farmland data sets is the NCREIF Farmland Property Index which was launched in 1990 and today tracks the performance of \$15bn+ of US farmland.⁵ US farmland not only demonstrated resilience during and following the Global Financial Crisis but also demonstrated similar characteristics during the Dot Com recession in 2001. From an investor’s perspective, this historical resilience has provided for capital preservation across economic cycles.⁶ In 2022 and during the early stages of COVID-19 in 2020, US farmland again proved resilient.

US FARMLAND PERFORMANCE SINCE 1990 ⁷	RECESSION PERIOD	US FARMLAND
COVID-19	Q1 2020 to Q2 2020	0.5%
Global Financial Crisis	Q4 2007 to Q2 2009	18.7%
Dot Com Recession	Q1 2001 to Q4 2001	1.3%

The ANREV Australia Farmland Index⁸ was established in 2015 by NCREIF and uses the same methodology as the NCREIF Farmland Property Index⁹ but relies on a much smaller data set. The ANREV Index broadly mirrors US farmland performance with Australian farmland quarterly returns remaining positive between January 2020 and December 2022.

FARMLAND PROVIDES A NATURAL INFLATIONARY HEDGE

In a 2021 research paper, Stepstone concluded that “agriculture investments are considered a natural inflationary hedge for portfolios”. Stepstone found that US farmland returns had a correlation coefficient to inflation of 0.57 for the period 1960 to 2019.¹⁰

The Center for Farmland Research at the University of Illinois in 2020 completed what is likely the most robust recent analysis of the relationship between inflation and farmland returns. The paper concluded, “Historically at least, farmland has maintained the wisdom that was observed perhaps 200 years earlier with Ricardian theory of rent and the conclusion that land should be among the greatest stores of real value in periods of inflation... those relationships appear to still hold across a large set of conditions, time periods, and treatments of holding intervals”.¹¹

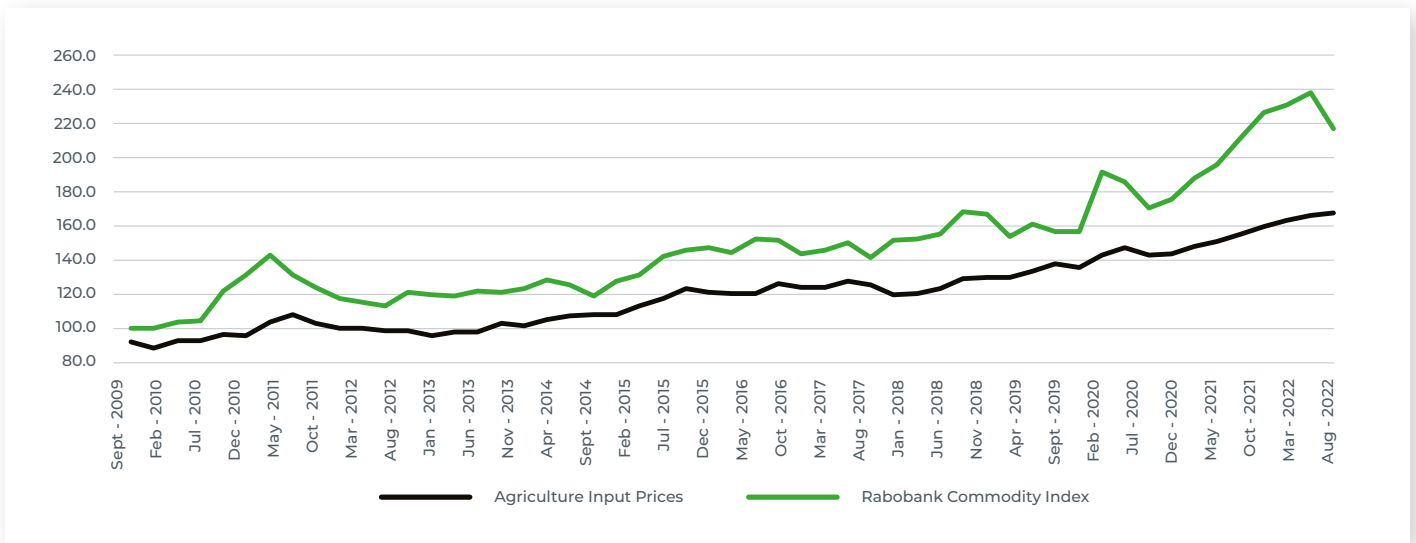
INFLATION HAS HAD A VARIABLE IMPACT SINCE 2020

It’s been more than 30 years since inflation reached the levels of >7% seen in 2022.¹² From December 2019 to September 2022, Australian farming costs increased 24% while commodity prices rose 39%, more than offsetting higher costs.¹³ Over the same period, US farming costs increased 24% and agricultural commodity prices increased by 44%.¹⁴

3 Sources: ABS; Bank Indonesia; European Commission; Office for National Statistics; Statistics Japan; US Bureau of Labor Statistics.
 4 OECD, 2009, Agriculture more resilient to global crisis than other sectors.
 5 NCREIF | Farmland Property Index
 6 Stepstone, 2021, Agriculture: Ripe for Institutional Investment
 7 Riparian analysis, 2023. Sources: NCREIF Farmland Index, National Bureau of Economic Research
 8 ANREV Australia Farmland Index | ANREV
 9 NCREIF | Farmland Property Index
 10 Stepstone, 2021, Agriculture: Ripe for Institutional Investment
 11 Sherrick, B et. al., 2020, The relationship between inflation and farmland returns, Center for Farmland Research, University of Illinois.
 12 Consumer Price Index, Australia, September Quarter 2022 | Australian Bureau of Statistics (abs.gov.au)
 13 Riparian analysis, 2023. Source: Australian Bureau of Statistics and Rabo Bank.
 14 Riparian analysis, 2023. Source: USDA.

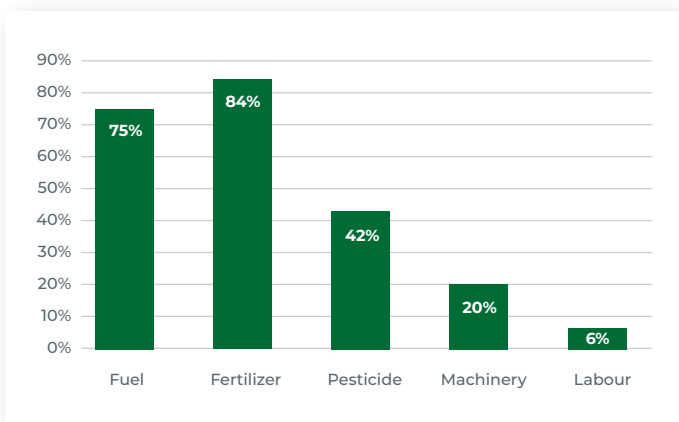


AUSTRALIA FARM COSTS AND COMMODITY PRICES¹⁵

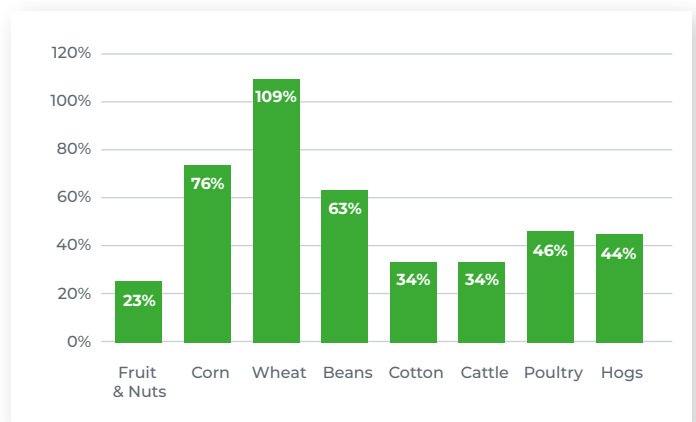


While farm costs have increased in aggregate, we know the percentage increase in individual input costs and the proportionate rate of use of each input varies from farm to farm, and commodity to commodity. As a result, the increase in farm production cost has varied across the sector. Likewise, the extent of commodity price increases has also varied by commodity. Due to different cost structures, margins have increased for some farming enterprises while others have experienced margin pressure. This conclusion supports Riparian’s experience and anecdotal evidence as select sub-sectors, particularly annual crops (wheat), have maintained and at times seen higher farm profits in recent times, particularly when considering increased production, while select permanent crops are yet to experience price increases to the extent of some annual crops.

AUSTRALIA FARM INPUT PRICE INCREASES 2019-2022¹⁶



PRICES RECEIVED BY COMMODITY¹⁷



CONCLUSION

Given the relative difficulty of sourcing long-term robust data for agriculture in general and particularly Australian agriculture, this paper has at times relied on data from North America.

While the data set is not perfect, it suggests farmland investments continue to demonstrate resilience during periods of economic contraction, and long-held beliefs of farmland acting as a hedge to inflation appear well-founded. Arguably, these return characteristics, when combined with the emerging environmental impact opportunities in the conservation of natural resources and the reduction of GHG emissions in agriculture, suggest farmland investments have a compelling role to play in modern portfolios.

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¹⁵ Riparian analysis, 2023. Sources: Australian Bureau of Statistics and Rabo Bank.

¹⁶ Riparian analysis, 2023. Sources: Australian Bureau of Statistics and Rabo Bank.

¹⁷ Riparian analysis, 2023. Source: USDA. Price increases shown reflect USD prices. Actual prices increases experienced by Australian farmers may vary for a number of reasons include movements in foreign exchange rates and market differences.



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"Riparian zone" refers to a broad zone spanning from the riverbank to the floodplains; it occasionally includes hill slopes that may influence the stream ecosystem.

Oxford Dictionary 2018

