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Farmland Meets Finance: Is Land the New Economic Bubble?

by Madeleine Fairbairn

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Food First / Institute for Food and Development Policy
398 60th Street, Oakland, CA 94618-1212 USA
Tel (510) 654-4400 Fax (510) 654-4551
www.foodfirst.org land@foodfirst.org

Transnational Institute (TNI)
De Wittenstraat 25 1052 AK Amsterdam, Netherlands
Tel (31) 20-6626608 Fax (31) 20-6757176
www.tni.org tni@tni.org

Cover and text design by Zoe Brent
Cover photo by Denys Prykhodov
Edited by Tanya Kerssen

About the author:
Madeleine Fairbairn is a PhD candidate in the Department of Sociology at the University of Wisconsin-Madison.

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About the series:
The Land & Sovereignty in the Americas series pulls together research and analysis from activists and scholars working to understand and halt the alarming trend in "land grabbing"—from rural Brazil and Central America to US cities like Oakland and Detroit—and to support rural and urban communities in their efforts to protect their lands as the basis for self-determination, food justice and food sovereignty. The series is a project of the Land & Sovereignty in the Americas (LSA) activist-researcher collective, coordinated by Food First. For media inquiries about this series, or to arrange an interview with an author, please contact land@foodfirst.org or call (510) 654-4400.

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Introduction: Farmland, A Safe Investment in Troubling Financial Times

At the turn of the 21st century, farmland was still considered an investment backwater by most of the financial sector. Although some insurance companies have had farmland holdings for years, most financial investors found farmland, and agricultural investment in general, unappealing compared to the much higher returns to be made in financial markets. However, this began to shift around 2007 as the prices of agricultural commodities started to climb and land prices followed suit. The recession that began with the bursting of the US housing bubble in 2008 caused investor interest to suffer a momentary dip but also added fuel to the fire, as investors sought alternative, and more secure, places to put their money.

This report identifies broad trends in farmland investing with the potential to affect countries in the Global North and Global South.

Private investors are flocking to farmland both for the returns it delivers and for the role that farmland can play in an investment portfolio. Because farmland values tend to increase along with inflation but do not move with the stock market, farmland is touted as an inflation hedge and as an excellent way to reduce overall portfolio risk through diversification (HighQuest Partners 2010).

Private investors are flocking to farmland both for the returns it delivers and for the role that farmland can play in an investment portfolio.

Financial investors are not the only actors buying up farmland—they are joined by national governments concerned about food security and farmers hoping to expand their plantings in response to high crop prices—but their participation is a significant new development. The sudden enthusiasm for farmland as a portfolio investment is contributing to both the large "land grabs" taking place in developing countries and to roaring land prices in countries with more developed land markets (Knight Frank 2011). In the US, skyrocketing land prices have raised concerns about a possible land price bubble (Abbott 2011).

Whether or not farmland markets are dangerously overheated, they are certainly hot. Farmland is drawing investment from "high net worth individuals" as well

QUICK FACTS

WHAT?
Following the burst of the US housing bubble in 2008, private investors began flocking to farmland, contributing to land grabs and rising land prices, raising concerns about a possible land price "bubble."

WHERE?
The Global North and Global South

WHO?
"High net worth individuals," financial companies and institutional investors such as pension funds, hedge funds, university endowments, private foundations and sovereign wealth funds

CONTACT
To arrange a media interview with the author of this report, please write to land@foodfirst.org

as institutional investors such as pension funds, hedge funds, university endowments, private foundations and sovereign wealth funds. Celebrity investors like George Soros are investing in farmland (O'Keefe 2009) and agricultural investment conferences—which provide opportunities for fund managers and farmland operators to network with investors—have exploded in popularity. Asset management companies—which act as investment intermediaries—have responded to this sudden investor interest by creating a lavish buffet of new farmland funds (IIED 2011). Despite this rapid growth, the extent of capital markets' interest in farmland is still relatively minor; estimates of total institutional investment in farmland range between $30 and $40 billion globally (Wheaton and Kiernan 2012). However, it is undeniable that since 2007, global farmland real estate has undergone a makeover to become a desirable alternative investment.

In October of 2010, the financial blog Zero Hedge wrote about the giant pension fund TIAA-CREF's two billion dollar investment in agricultural land. The many reader comments that follow the post capture the irony of financial markets' sudden interest in farms. One reader jokes that a farmland bubble is emerging that would make a great new reality TV show, "Farm Flippers, Thursdays this fall on HGTV" and even envisions some fake content: "of course we put in all stainless steel and granite feed troughs and watering buckets. We project we'll make a 300 percent profit when we sell next month." Another reader asks whether the turn to real assets is a "Sign of Wall Street's fake paper going the way of the dodo? Or, more fake paper?" Slightly rephrased, the question might read: does the turn to farmland, among other real assets, signal a shift away from financialization? Or does it simply indicate that farmland itself is increasingly being treated as a financial asset?

The Financialization of Farmland: "Like Gold with Yield"

"Financialization" is a catch-all term for the growing power and prominence of finance since the 1970s. One aspect of this trend is "the tendency for profit making in the economy to occur increasingly through financial channels rather than through productive activities" (Krippner 2011, 4). Essentially, investors are making more money by lending or investing their capital and waiting for it to grow by itself and less by using that capital to produce and sell commodities. The case of farmland is interesting because the distinction between "productive" and "financial" sources of profit is not always easy to discern.

Land plays two different economic roles: it is an essential means of production, but it also acts as a reserve of value and creates wealth through appreciation. In other words, it is a productive asset that moonlights as a financial asset. Though farmland's financial qualities have always held some appeal to speculators, the financialization of the global economy since the 1970s opened up new possibilities for the incorporation of farmland into financial circuits. The current wave of farmland investment combines a renewed interest in productive, real assets with an underlying logic of financialization.

In the 1970s and 80s, researchers began to notice that investors were increasingly drawn to land for its financial qualities. David Harvey (1982) argued that investors were treating land as "fictitious capital" that brought in a stream of income just like their other investments in stocks or bonds. Massey and Catalano (1978) found that financial investors were buying British farmland and leasing it out to tenant farmers, motivated by the rental income and potential for property value appreciation. They contrasted this behavior with that of farmers, who valued farmland for its productive qualities. They raised concerns that these investors were inflating land prices and outbidding "owner-occupier" farmers. Whatmore (1986), meanwhile, pointed out that owner-occupiers can also be active participants in land price speculation. However, she observed that outside investors might have the effect of importing volatility into land markets. Because they treat land as fictitious capital, their decision to keep or sell it is influenced not just by the agricultural value of the land, but also by the wider financial environment, such as inflation and interest rates.

Today, many investors are drawn to farmland because of what it can do for them financially. Farmland's desirability as a store of value and source of capital gains from appreciation is perhaps best illustrated by the frequent comparisons between farmland and gold. Like gold, farmland is limited in quantity, appreciates over time, and provides a refuge for anxious investors

during economic downturns. Unlike gold, however, farmland is also a means of production, a fact that sometimes gets lost. In media and investment publications, farmland is frequently referred to as "black gold" (Cole 2012) or "like gold with yield" (Koven 2012). At one investment conference, a South American agricultural fund manager took this analogy even further, arguing that if Brazilian and Argentine cropland is like gold, then Chilean vineyards are like diamonds, emeralds and rubies. Such expressions are telling because they imply that farmland's primary appeal is its ability to store and even increase in value, while the fact that it also comes "with yield" from agricultural production is just the icing on the cake.

Due to land's dual nature as a productive and a financial asset, it is possible to use the land productively while simultaneously speculating on financial returns from its appreciation. Contrary to simplistic portrayals of recent large-scale farmland acquisitions (or land grabs) as *either* productive *or* speculative this demonstrates that they can be, and frequently are, both at the same time.

Potential Impacts of the Financialization of Land

Separation of Ownership and Control

There are several implications of increasing interest in land as a financial asset that deserve special mention. First, when investors buy land and lease it to tenant farmers, they contribute to the separation of ownership and control in land markets. While investors can provide farmers with much needed financing, they also transfer ownership away from the person farming the land. Aside from the obvious impact this has on the social structure of agriculture, it also reduces the farmer's incentive to use sustainable practices by removing his or her stake in future productivity.

Land Concentration and Reduced Access to Land

Some of the ways that investors "add value" to farmland before re-selling could also reduce access to land for smallholders. Many companies see consolidation of small properties as an integral part of their strategy of land transformation. Their reasoning is that larger plots will be more attractive to agribusinesses and other buyers. In addition, some companies add value by clarifying legal title where it was previously murky. In many parts of the Global South, an ironclad property

Industrial agriculture, California. Photo by Leonor Hurtado

title will come at the expense of local residents whose legally flimsy claim lies only in years or generations of life rooted in that place.

Unsustainable, Short-Term Thinking

There is also a danger of importing the short-term thinking of finance into land markets. If capital gains are to be realized, then the land must eventually be sold. The idea of entering into land ownership with an "exit strategy" in place—as private equity fund managers often do—would thoroughly confound most of the world's farmers, for whom hanging on to their land is a primary objective. For most financial investors, however, seven or ten years is a long-term commitment. Although many private equity fund managers argue that their short tenure as landowner will involve soil quality or other property improvements as a means to increase profit on re-sale, it seems equally likely that such a short-term view could lead to careless treatment of soil and water resources.

Rising Land Prices

Some investors, including many pension funds, do plan to hold on to their farmland properties for many years to come. However, this type of investment could also contribute to changing land market dynamics. Global pension funds alone manage over $30 trillion in assets (Towers Watson 2013). If all allocated just one percent of their portfolios to farmland investments, there would be $300 billion in pension money competing in

global land markets. This amount of capital could raise land prices, putting it out of reach of small farmers, especially if investments concentrated it a handful of attractive markets.

Conclusion

We may be seeing the emergence of a new type of financialization for an era of growing resource scarcity—one in which farmland's role as a quasi-financial asset will be even more prominent. As McMichael (2012, 686) observes, the restructuring of the corporate food regime involves the opening of new investment opportunities for capital with the result that "the so-called rational planning of planetary resources such as land (and water) is driven as much by financial goals as by material considerations." Increasing financial interest in farmland may prove to be a passing phenomenon. The farmland bubble, if indeed one exists, may soon burst or simply deflate, particularly given that the appeal of land as a financial asset is highly dependent on interest rates. If, however, powerful institutional investors and financial companies continue to embrace farmland as a financial asset, it could have lasting effects on land ownership and farming worldwide.

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