



IS THIS FARM BOOM *different?*
FEDERAL RESERVE BANK of KANSAS CITY • JULY 16-17, 2012



A Symposium Sponsored by
the Federal Reserve Bank of Kansas City
July 16-17, 2012

Session 4: Who Bought the Farm?

Who Bought the Farm? (Transcript)

James Farrell

President and CEO

Farmers National Company

Thank you, Jason [Henderson], and good morning everyone. Jason gave us a tough spot to fill. You get all the experts and then I get to come up and talk. I'm going to be much less technical than some of the presentations you've heard this morning. And I thought the first presentation was extremely interesting. Allen Featherstone and I talked about it over breakfast and I was anxious to hear what he had to say. I thought it was quite enlightening.

I'd like to start out really quickly, because Jason also asked us to talk about whether this is a bubble or not. By a show of hands, how many of you think this land market is a bubble right now? We got a few of you. How many of you think we're at the top of the land market at this point? Probably about the same group. I would say it looked like not quite 50 percent who thought the market is a bit oversold at this point. I thought that would be an interesting place to start and give me a perspective as to where people are today.

What I want to spend time talking about is who owns the land today. Current farm operators, of course, and a lot of the larger land owners – when you look by sector – are obviously getting older. It's interesting, I was reading an old *Farm Journal* article written in the 1950s by a former president of Farmers National, Bruce Russell, where he lamented about who is going to farm the farm, because the average age of the farmer in those days was over 51, 52, or 53. They were concerned about it at that point, but through mechanization and automation and technology, we have been able to continue farming the farm even though the American farmer tends to get a little older every year.

What's different to me today, and what's interesting, is something I've seen when I was a guest lecturer at Iowa State once a year to a couple of senior-level classes. I talked mostly about what occupations there are in agriculture for them to consider, in

Who Bought the Farm?

relation to the fields my company works in. I've been doing this for about 15 years and I'd say for the last five years when I'm asking what they intend to do when they graduate, it's getting to be more and more of them are planning to go home and farm. It's looking a little like it did in the 1970s. Anybody that went on to college in the 1970s in agriculture, you went home to farm. I'm seeing a little bit of that today, which is a little different, because during the ten years prior to that, that was *not* what they were telling me when I asked what they were going to do when they graduate.

The other thing with farming is it's getting very difficult in our business to hire people that have an ag background. There are a lot of people hiring in agriculture right now and a lot of people going back to the farm. Finding good candidates with good farm backgrounds is getting to be tough. We are going to see that for a few years, as well.

When you are thinking about who sells their land, then, we talk about these farm operators. In our opinion, farm operators don't sell land and they don't sell land when they retire, either. They rent it out. A few will sell, but the bulk of them don't. They rent it out and typically they cash rent it out. It will pass on to their heirs. That's one side of the ownership.

The next side of the ownership is what we might call "the solid majority," if you will. That's the non-operating owner. In our business, about 75 percent of those landowners are over the age of 65. Statistically, over 60 percent of the land is owned by non-operating landowners today. Most of them don't sell the land. They hold onto it. There is a percentage of them that will sell, but most of them don't. They are concerned about capital gains, as a lot of folks are. They also like the investment and they understand it.

But even more so, there is an emotional attachment to that land and they hang on to it because of the emotional attachment, maybe they grew up there. They want the family reunions there, whatever the attachment is, they hang onto it. They don't have an attachment to their stock portfolio, but they do to their farm. Their kids inherit the land and, most often, their kids will keep the land, as well. We see about 5 percent of the kids will sell their land when they inherit it.

Who Bought the Farm?

When we combine the group of the mom, the dad, and the heirs, that's about 95 percent of the land we sell. And we sell a lot of farmland. It comes out of that group. It's not coming from the farm operator.

If you take a look at the land market today, I can't tell you anything that hasn't already been said maybe multiple times at this meeting. But the land market is very strong. What we're seeing is a continual push to quality. Ever since this started being a real boom in late 2006, quality farmland has brought a premium to the core quality farmland in most areas where we work.

Capitalization rates have dropped substantially. In 2006-2007 when we had investors wanting to buy, they wanted a 5 percent return. Today, 3¼ to 4 percent is pretty common. Farmers will buy it with less of a cap rate return than that. So the market is taking that into account.

One thing I will note is we are starting to see some of the poor-quality farms starting to increase in value. We are seeing some of the biggest gains in value now in areas we might consider more marginal areas for farm investors or for farm purchasing.

Another thing we've noticed just recently is that seller motivation has moderated. It has been going on really since 2007-2008, as we got into the financial crisis. People have been very reluctant to sell land. We manage just over 5,000 farms and we've seen that every year, on average somewhere between 3½ and 5 percent are going to sell land.

We've seen about a 30 percent to 40 percent drop in sales out of that group since that time. They are not sure what they are going to do with the money. They are concerned about a safe haven for the money. Esther [George] commented last night in her comments about some of the surveys that are indicating concern about the U.S. financial system. All of that enters into their thinking. Land is a hard asset and they're hanging on to it.

Part of what has been going on is that land is being held a little tighter and you have more people pushing money trying to buy it. Of course, that has buried the market, if you will.

What we've seen over the last 12 months is that our sales are up 30 percent year-over-year, and that's by the number of transactions sold. So we are actually selling 30 percent more transactions, or more farms if you want to think of it that way. We've sold

Who Bought the Farm?

20 percent more acres than we did a year ago, but our sales volume by the value of the land sold is up 50 percent from a record year in 2011, and 2010 was a very big year for us.

Past concerns are driving this in some part. When you ask, you hear people say, “Hey, I’m thinking maybe this is the top and maybe we ought to think about trying to sell.”

That’s kind of anecdotal. We’re certainly not hearing that from a lot of folks, but we are hearing that in places. Despite the increase in volume we are seeing, the market remains very strong. We’re seeing strong demand everywhere and the areas for increasing demand that we’ve noticed would be places like Kansas, North Dakota, and the Delta states of Arkansas and Mississippi. The Delta states are where a lot of the investor cash has been going over the last two or three years, as Midwestern land prices have appreciated to the point where it’s very difficult to get the ROA returns they are looking for.

There are also new funds that are trying to get into the act. I would say no less than every two or three months we have a new fund approach us that is financing and trying to get out short by buying farmland. There is way more money available to buy land than there is land for sale at this point, but it has been that way for several years.

The other thing going on now is there is so much publicity about agriculture. It’s hard to get away from reading about how good agriculture is. So you have a lot of people who don’t know a lot about agriculture that are thinking they need to get into the sector. That’s a little different. I was in this business in 1986-88. I was in production agriculture the ten years prior to that. So everything that was talked about this morning I lived through, as well.

In 1987-89, we had investors who would call our shop and say, “We want to buy farmland. We think it is at the bottom of the dip.”

If it was, it would have been a good buy. But they didn’t have a clue. They wanted to know, “Can we buy it by the foot? Do we buy it by the pound?” Yes, things like that. We frankly saw very few ever come to the table with money and buy anything. Mostly what we did was spend a lot of time educating people about agriculture and they would never commit.

Who Bought the Farm?

This time around has been different. They're buying and they're buying a lot. There are two types of people buying land today – and this is from our perspective only. They are things we are noticing internally at our company.

There are two types of investors in the market and then there are farmers. The first type of investor, as we look at it, is the traditional investor. Those are folks like most of us in the room here. They probably grew up in a rural area, understand agriculture, and maybe inherited a piece of family land somewhere. Even if they didn't, they are going back to the home area and buying land, because they like the investment and feel good about it. There are a variety of reasons for buying it.

And then there is the new investor. And that's the new investor I was just referencing. They are bullish on agriculture. We find that percentage is a moving average. They are looking at leverage sometimes as high as 50 percent. That is some of what we're observing in that marketplace and they are looking for that return of 3.50, 3.75, or 4 percent – that ballpark. That is the type of cap rate returns they are looking for. They do plan to hold the land for a long period of time, or at least that is their game plan at this point.

It is almost the same scenario every time we talk to a fund. It's like they have a playbook, because the playbook is very similar. They follow the same kind of pattern.

Farmers are the third buying group and they're spending their cash. We estimate maybe 40 percent of the sales have leverage. That is no more than anecdotal, because we have not been able to get a good handle on that. We survey lenders. We survey our brokers internally within a company. We have over 200 real estate agents and it's been difficult for us to get a handle on what's leveraged and what's not. We hear "Sometimes I'll use these 80 acres to finance that 80 acres and I'll get a 100 percent loan, because I'm pledging a free 80 over here."

Sometimes that shows up as leveraged and sometimes it doesn't. It has been difficult for us to figure that out. So the best we can come up with is we think about 40 percent have leverage.

The other thing that is going on with farmers is we have had tremendous inflation in operating cost – unbelievable inflation in operating cost! The cost to earn a dollar in production agriculture in heavy production areas today is at record highs, or the ratio is

Who Bought the Farm?

narrowed to where the margins are very thin compared with what it was just five years ago.

Cash rents have eventually caught up with land values. When you are looking at cash rents in an area somewhere between \$400 and \$550 an acre, paid up front which is not uncommon, and then you tack on top of that fertilizer, herbicide, seed, and everything else, the operating cost for the average 3,000 acre farmer is tremendous, the amount of money they have at risk. So those are a couple of things we are seeing.

So far this year, the numbers say we have sold 600 farms and ranches at \$420 million (actually we are up to \$450 now and we're in the ninth month of our fiscal year). Last year we sold \$420 million, which was a record year. So the volume is staying very, very strong. And it's the farmers that are buying. We're seeing 70 to 75 percent of the farms are being purchased by farmers. Just like Alan [Featherstone] said in his presentation on Iowa, we're seeing that across our service area – not just in Iowa.

When you see the high-priced land that is being sold and you hear about somebody buying land for \$15,000, \$18,000, \$20,000 an acre (the famous Sioux County \$20,000 acre sale) those are not typically investors. Investors rarely buy at auction. Some do, but it is not their standard mode of operation. They follow a very specific due-diligence process. It takes them a little longer, and auctions aren't where they are typically buying. It's farmers that are setting those prices.

The other thing that we see is about a third of our land is trading well below what is the average price. Our appraisers have been telling us this for a couple of years. So a third of our land is trading somewhat below what you might consider the average price in the area, because some landowners don't know what the market is and somebody offers them what looks like a great price and they move it. Or maybe they want to give the farm operator a break. It is hard to know what the motivation is. We think mostly it is because the landowner doesn't have an idea of how quickly the market has moved and how hot it is. So they are selling this property somewhat below the market. And investors are trying to get into that if they can, which would make sense. If you can buy a little below the top, that is where you want to be buying.

Of the other amount, about 25 percent to 30 percent of the properties would be investor purchases. And that is about half and half between the traditional and the non-

Who Bought the Farm?

traditional investor. So the non-traditional investor – those folks who are just coming into the market but are not a huge part of the market – are drivers in certain areas. However, they are not buying in states that preclude corporate ownership. That takes them out of the mix in states like Iowa, for the most part. So they are not necessarily in the mix there as heavy as in other states where there aren't laws on the books that indicate they are unable to buy in a corporate ownership structure setup.

Most of the current buyers are long-term buyers or players. Farmers buy and hold. That's what they do. They use lots of cash, some leverage, and they average the cost over other acreage. They do the same thing when they pay hard cash rent. They may be paying somebody over here \$200 per acre and they are paying somebody over here \$500 an acre and it is an average, which makes good business sense. Farmers don't look at every transaction as a standalone transaction, as an investor might. It's a different mindset when you're thinking about who is buying.

Investors, for the most part, are banking on a 10-year ownership at the minimum. For the investor, return is key. As they are doing their models right now, some are backing off from high grain prices and going back to what they consider to be a more average price, like maybe \$4 corn, \$4.25, \$4.50. If they can't get their return at those levels, they are not buying. I don't know if the investors will buy based on this current upswing in grain prices. They won't be factoring that into their purchases, I guess is what I am saying.

Return on investment expectations have been lowered, though, in order for people to buy, most definitely. What's guiding demand? Things we've been talking about here in all sessions. Excellent profits are the number one driver. Both farmers and investors – both groups – are very bullish on agriculture.

We had investors coming to us in late 2005 and early 2006 – and I remember the conversations – who were saying, “Farmland is severely underpriced.”

We didn't necessarily agree it was “severely underpriced.” Actually, there was some appreciation, but nothing like what we've seen at this point. But there were some investors that were looking at the models, saying it was way underpriced for what it should be. That was what was pushing them into the market.

Who Bought the Farm?

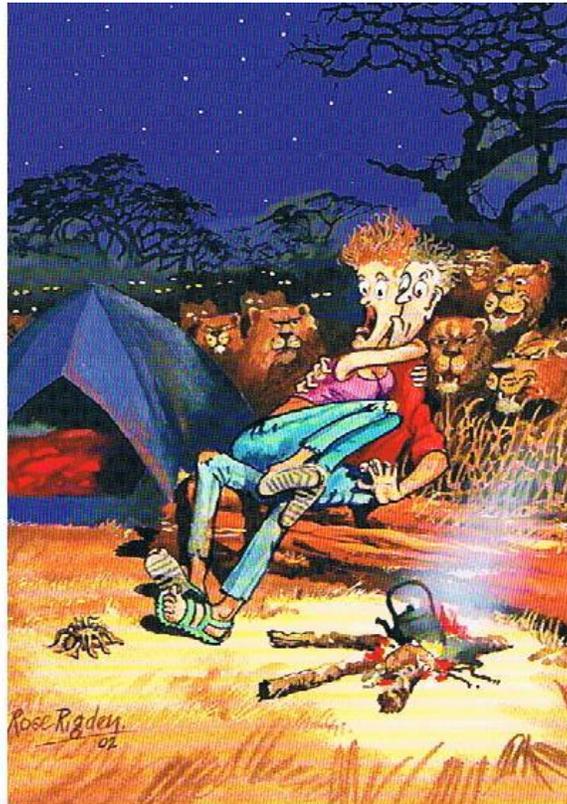
I would point out the number two reason is interest rates. The other reasons – renewable fuels, more income from the middle class, and developing countries wanting more protein in their diet – are all things we've talked about. But interest rates are really pushing this market and they are pushing this market very, very hard. You see landowners who are reluctant to sell because they have nowhere to put the money. They know it would be the time to sell, they have a lot of reasons to sell, and they won't because they don't trust Wall Street, they don't see any other investments that look good, so they are going to hang onto that farm. That is having an effect on the market. We also have older farmers taking money out of the bank and buying land and they're not particularly concerned what they're paying for it because the return is better than what they're getting for the cash in the bank.

The 80 to 85 year-old farmer out buying farms and paying cash is something we are seeing in certain markets. Those are being driven in my opinion by monetary policy.

There are some changes coming, at least one change. We have one Wall Street firm. (I say Wall Street firm, although they are not located on Wall Street. I just use that as an analogy, if you will. It would be the Wall Street-type investor firm.) They have amassed a pretty good sized portfolio since 2007 and they are planning to sell that portfolio this year. That's the first one that has come to us with an interest in selling after initially indicating they had a long-term perspective on ownership. They have another use for the capital and so they have made the decision in the last 90 days they are going to sell and they would like to sell by the end of the year. I don't know if that is indicative of things to come or if it's an anomaly, but it is something we haven't seen in the market. So that's somewhat unusual.

I picked up this slide on vacation one time [Figure 1]. I love it for things like strategic planning or long-term view, because if you take a good look at it (I picked this up in Africa) they are watching that spider and they are scared to death of it and they are surrounded by lions. How often is that the case? Are we focused on the right risks?

Figure 1: Is Agriculture Focused on the “Right” Risk?



I say that as I reflect back on the 1970s and 1980s, since I said I was in production agriculture at that time. Land values were certainly a symptom of what was going on. It's been touched on today. It wasn't necessarily land values. It wasn't necessarily the high interest rates. Those were all things that caused pieces of the farm crisis.

There was no income. There was no way to service short-term debt for a several-year period in the early 1980s. That was where the problem came. Expenses had escalated so rapidly and they backed off so slowly that when prices dropped, the profits were sucked right out and there was no way to keep up the operating loans. Operating loans began to collapse, and a year later land loans collapsed. We worked with a lot of acquired properties in those days and saw that happening at the time.

When we focus on the risks, we have rapidly escalating input costs right now. And I do think that is something we need to keep in mind. Input costs seemed to drop down a lot slower than grain prices. The point that Dr. Featherstone made this morning that the safety net of crop insurance is very valid. We talked about that internally, as well.

Who Bought the Farm?

That's okay for this year, but what about next year? And, if the price of grain starts to drop, then you still have high input costs. So those are just some things to think about.

Is this a bubble? How you view this time is different, very much so. Balance sheets are extremely positive. You would have to be a really poor farmer in the last few years *not* to have had a pretty good increase in balance sheet performance if you own farmland in any of the states where it has been growing. Most farmers have done very, very well. Livestock excepted, because there have been some troubles in the livestock industry, but not when you're looking at production agriculture.

I mentioned earlier that operating costs are skyrocketing. To some degree, that was part of the 1980s. Interest rates were part of the operating costs in those days. Today it is not interest rates, it is other factors. Our support in this business has political tentacles - and that's ethanol and that's monetary policy. As we look at what has pushed the land market, you have ethanol, you have China, you have monetary policy with 0 percent interest rates, all of those have been things that supported this latest boom - in land for certain. Two or three of those have had political connections. No matter how you want to look at it, they are tied somehow or another to politics.

When we step back and take a look, do we see some great big crash in land values, though? The guy who runs our real estate department lived practically across the road from that \$20,000 an acre Sioux County farm that sold. He's from that area, it was the Dutch area of northwest Iowa and he knows the farm well. He would tell you if he were here is if you don't have velocity you're not going to have a crash in the market. If land is in pretty strong hands and if there isn't some sort of problem that is going to push land out of the market, people who own land probably aren't going to be rushing out to sell it "just because." So we may not have the factors here to have the velocity to push this land market down really rapidly like we saw in the 1980s. His point is well taken. I am not sure what would cause the velocity.

It isn't sustainable. Jason [Henderson] wrote an article about a year ago and made these points and I thought his points were very, very valid. If commodity prices stay where they are, if interest rates stay low, if renewable fuel standards stay in close, and if China continues to grow, this probably is a pretty good place to be. But I would throw one thing out. I have been mentioning this when I've been talking about land values the

Who Bought the Farm?

last three years. If we had a 4 percent, 12-month CD rate available today, I maintain we would have a totally different looking market than what we have. Just that factor alone would make a significant difference in what's going on in agriculture. With that, Jason [Henderson], I will turn it over to the next presenter.

Who Bought the Farm? (Transcript)

Chris Erickson

Chief Executive Officer of Soyatech and a partner of HighQuest Partners

Good afternoon. The first thing I'll do is give you a quick overview of HighQuest. At HighQuest, we are a consulting company that works for the global agribusiness industry, working for biotechnology companies, the farmland equipment companies, and primarily the Asian-based trading companies.

It was probably about five years ago that we started getting phone calls from institutional capital saying, "Hey, somebody just came into my office asking me if I would put money into farmland. Why would I ever consider doing that?"

So we started looking at this and began working with some of the people here in this room actually, and began building a practice around agricultural investments for institutional capital, both on the farmland side and ag operating companies as well. My colleague on the podium, Tim Hopper, his colleague Jose [Minaya] was the one who said to me, "Hey, you guys should look at putting a conference together or hosting a meeting on this."

This is absolutely, purely anecdotal, but I want to give you an idea of the interest of financial capital coming into agriculture today, both on the land as well as the operating company side. We first launched this in January 2009, right after the 2008 crisis and Bernie Madoff happened a month prior. I got a lot of hang-ups when I was calling people to ask them to come to a conference on farmland.

We ended up with about 220 people at this event. This past year in April – several people in this room were there – we had just over 700 people with about 250 to 260 institutional investors coming to this to become educated on agriculture and educated on farmland on a global basis, not necessarily just in the United States. So this is purely anecdotal with regard to the interest Jim was talking about. Why is this?

So this is just a quick snapshot right here. You take a look at the equity markets and the S&P over the last couple years. You look at the major agricultural items of pork,

Who Bought the Farm?

beef, corn demand, and overall consumption versus the S&P. You have fluctuations in the equity markets, but generally speaking you see an upward and to the right performance in the beef, pork, corn, and overall ag products. Why is this?

Again, we've heard this story over and over again with regard to China and Southeast Asia. To put it in context and to boil it down, you are talking about a region of the world where people are earning \$2 to \$5 a day. When they get that extra dollar a day, they aren't going to buy I-phones or luxury goods that we would look at, they want a piece of pork or a piece of chicken with the rice they're eating. That's what's changing it. It's the rise in GDP of that emerging middle class in Thailand, Vietnam, in China, and across Southeast Asia. Pretty soon, you'll start seeing it happen in Africa. You're seeing this happen in east Africa and other areas like this, too.

That's the story that people are looking at today. They're realizing that is continuing to move upward and everyone here knows the multiplier effect in regard to a pound of chicken, a pound of pork, a pound of beef, and what that requires in regard to feedstuffs.

Here are the key issues driving farmland values. Again, I'm not sitting here being a proponent or a detractor from farmland. I am giving you an insight into what institutional capital is looking at today. So they see the population increase, the growth increase in GDP across the emerging markets, increasing urbanization, and constraints on supply.

This year is no different. We have a constraint here in the United States on corn. Two years ago, we had the rush to wheat. Last year, we had issues with the South American harvest. And, even this year, the South American harvest was lackluster. Last year's U.S. corn crop was lackluster, compared with what it was predicted to be. So you have these constraints on supply, yet you have the growing demand for it in the emerging markets.

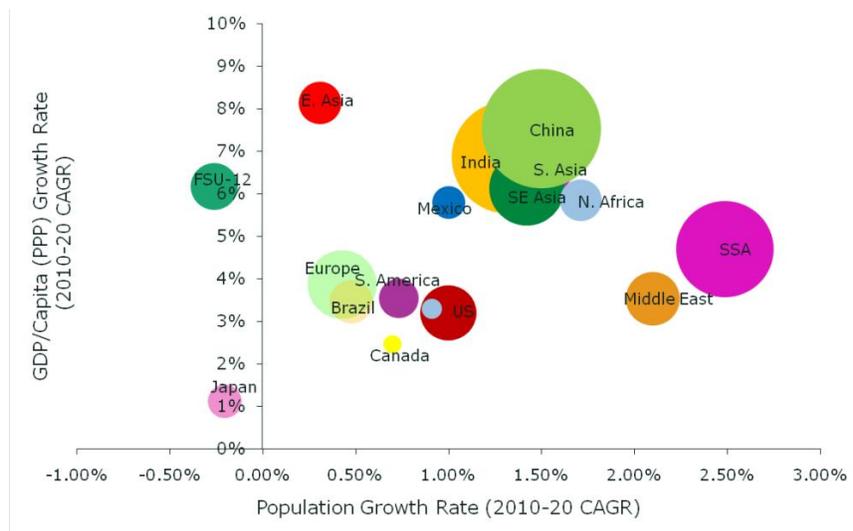
Slowdown in yield increases (and I have a slide on that coming up) and human capital. Jim hit it exactly. Nobody is expecting to go to Africa. There are vast tracts of land and water in Africa, but they don't have the human capital in regard to people in this room. I can also argue that many of the funds that are coming into this space in the United States today are coming in expecting they can get anywhere from a 5 to 10

Who Bought the Farm?

percent increase in operational efficiency in U.S. farmland. There is a varying degree of professionalism in U.S. farmers, just as there is anywhere else in the world. We're at a higher level here, but there are people who think they can get higher efficiencies in the U.S. market.

Here it is: population growth versus GDP growth [Chart 1]. This lays it out right there. You see China and India, in particular, and Sub-Saharan Africa right there (a larger population, but their GDP is growing, too). These are the growth markets that the world is beginning to look at. When you look at the buildup of agricultural operations in China and India, those have happened with the major ABCDs from the United States investing in China and investing in India.

Chart 1: World Population and GDP Growth

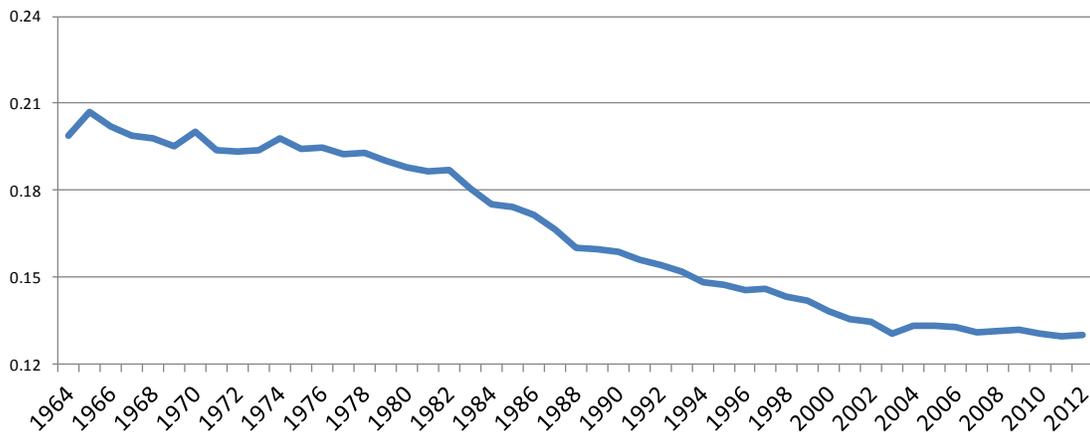


But you are beginning to see it happen in Sub-Saharan Africa, as well: Banqui with the acquisition of Sinwest, which is a South African operator, Olam, Ruchi Soya that is buying up palm plantations in the Kabong, about 250 hectares of virgin land that will be converted into palm. But you are beginning to see large investments going into Sub-Saharan Africa, both from a commercial standpoint as well as from an investor standpoint.

Who Bought the Farm?

Again, there is a shrinking contribution to the global food supply – this is harvested acreage on a per capita basis [Chart 2]. We are getting more out of less, but then there is a constraint.

Chart 2:
Historical global harvested acreage(ha) on a per capita basis
(1964 – 2012 proj.)



Note: The crops include barley, corn, millet, oats, rye, sorghum, wheat, mixed grain, rice and oilseeds (copra, palm kernel, cottonseed, peanut, rapeseed, soybean, sunflower seed).

When you talk with some of the other economists out there, as an example, Tom Mielke from *Oil World*, many of you will know him, and even our own internal analysis and even when you talk with some of the major grain companies, they recognize the need for additional acreage to come into global production. Estimates I've heard are that anywhere from 75 million to 100 million acres' worth of farmland needs to come into production within the next 10 to 15 years. That's across a basket of crops, not just corn and soybeans, but that's including wheat, rice, palm, and areas like that.

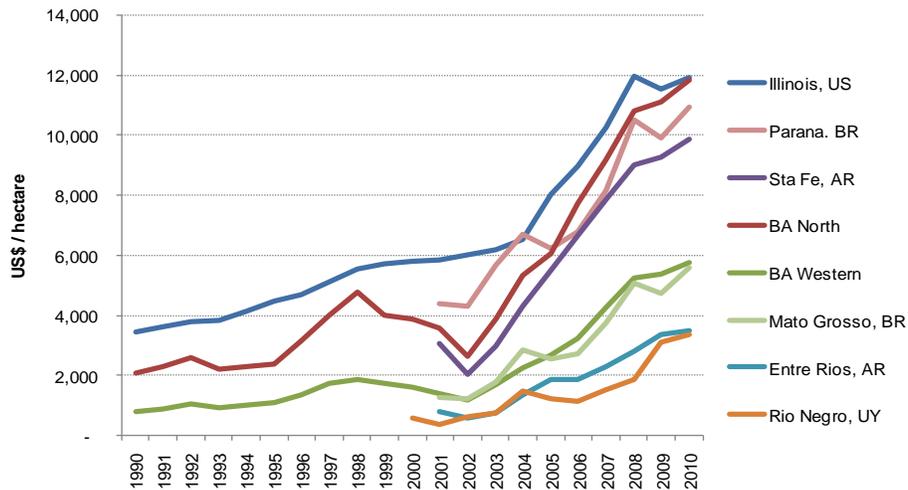
One of the issues we see is, while we do have yields on a continuing basis going up, the actual year-over-year increase for the last 10 years – this goes to 2010 actually – has been on a downward track for the major row crops. We are seeing an overall increase up and to the right, but the year-over-year increases have been on a downward trend.

I threw this in there this morning and didn't title it, but this in response to some of the discussion yesterday where someone asked the question in regard to farmland prices

Who Bought the Farm?

across the globe [Chart 3]. What we've done here is we've mapped Central Illinois versus the rest of South America locations. So Parana, Sta Fe, Buenos Aires North, Buenos Aires West, Mato Grosso, Entre Rios in Argentina, and Rio Negro in Uruguay.

Chart 3: World Cropland Prices



You've seen that farmland is trending together and they are moving up. As a comparison – and we don't have Australia or FSU in here – it is moving in tandem. Farmland values are moving pretty well together in North and South America. The largest percentage growth over the last five years or so was, I believe, in Uruguay. I don't have the percentages up there but I can add that for the slides that will be available for distribution later. Again, yes, they are moving in tandem.

Demand is outpacing supply right now, as everyone has talked about. Bill [Hudson] was talking about it yesterday in regard to the ending stocks. Compared with 1988 versus today, it's a drastic difference. The issue that is happening and the reason why institutional capitalists are starting to come in here too is, when you are looking at \$8 corn and \$16 soybeans, that is the price signal for new acreage to be coming into production.

This isn't just focused on the United States. That is the whole notion what I want to put in context today. We are here discussing U.S. farmland values, but really we are looking at global farmland values, as well. There are places in Sub-Saharan Africa right

Who Bought the Farm?

now that are trading for \$2,500 to \$3,000 an acre for cropland in the middle of Zambia. The notion that everywhere else it's \$50 an acre, no, that's not true. You can get that in places in Africa, but not places you may want to be operating in. For the most part, you are seeing an increasing trend and people are looking at the value of the land based on the value of the crops you can have on there.

The notion of African farmland is interesting. People were discussing the Chinese moving into Africa and using that for exports to China. That is actually not the trade that's happening over there right now. The trade happening over there right now is import substitution. That's where the fundamentals make the most sense. The exact same problem you have for importing into Central Africa, the constraints you have of moving cargo from the ports and on the roads through their infrastructure to Central Africa are the exact same constraints you have trying to bring it back out.

So you have people operating in the Sudan in September of last year when corn was going for \$200 to \$220 a ton, they were selling local corn at \$600 a ton, because that was still a 40 percent price differential off the land cost and importer cost into that region. That is where a lot of this expansion is going is, looking at where the pockets you can invest are that can do import substitution or, as Professor Featherstone was talking about, transforming Cerrado land into the transformational types of land, as well.

When you start looking at areas like that, the transformational projects in Africa or in South America, that's where investors here in the United States are very happy, as Jim [Farrell] said, with 4 percent and then get some appreciation off that. They are looking at this as a fixed-income replacement. Because when they are looking at interest rates and putting this into Treasuries or looking at the European debt market, they don't want to go there right now.

People were happy with 8 percent, including appreciation in the United States over the long term. When they start doing transformational and going to higher risk areas, that's when they are going to start looking for 12 percent, 15 percent, or higher in these types of areas, because they are adding more risk and there are more geopolitical issues in some of these regions.

Higher land values: When you look back at these prices here and you look at South America, you have seen a tremendous appreciation in land, particularly in Uruguay

Who Bought the Farm?

and Mato Grosso, in Brazil, and in areas like this. The value is not quite as high as central Illinois in some areas, but it is still moving quite dramatically.

Last, what I want to do is provide a quick snapshot. This is a survey with participants who came to our conference in April of this year. The big number I want you to focus on is the bottom one – end investors who have \$1.2 trillion assets under management. Overall, this is across all asset classes they invest in. The interesting notion is when we surveyed these people – and this is a very microcosm of a microcosm -- we had about 250 investors attend our conference. Of those who responded to the survey, that's a smaller percentage, of course. This is the actual number and isn't extrapolated or anything like that. But, of the group that responded to the survey, in the next three years they plan on putting \$8.2 billion into agriculture and farmland.

In the global context of finance, that's a drop in the bucket. It's still a good chunk of money going into farmland. Diversified end investors (right here), these are the groups and ag focus managers (right here), who are raising capital and these are their targets of what they're looking to do. So you're looking at \$20 billion as the targets that the fund managers are going out to raise. You have people with \$8 billion saying, "This is what I'm going to put forth."

You have other people who are trying to raise money saying, "We're going to put forth \$20 billion."

Again, this isn't all farmland and this isn't all U.S. farmland. This will include operating companies. For example, a couple of diversified investment managers invested in Gaviion and sold it to Marubeni earlier this year. TSI, the storage company, is another example that was bought by a private equity company and was sold to AGCO last September.

This is the last thing and then I'll turn it over to Tim [Hopper], you have 55 percent looking at farmland and crop and production technology, including seed assets, chemicals, pesticides; permanent crops, such as almond orchards and palm plantations, at about 35 percent; protein production – about 35 percent; ag infrastructure tops out at about 60-65 percent [Chart 4]. If you are going to believe the thesis of the amount of acreage that's coming in and the amount of product that has to be moved, it's that much more storage, transportation, shipping, and all the assets and processing that are required,

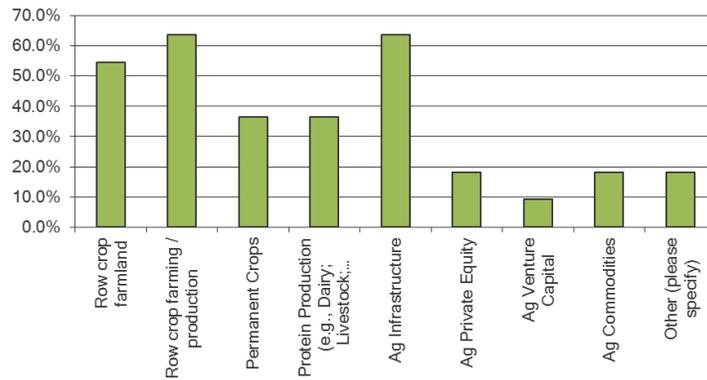
Who Bought the Farm?

whether it is in the United States or in destination markets. Ag private equity, ag venture capital, commodities, and here is the geographic area again [Chart 5]. The United States tops out at 65 percent. South America is next, then Eastern Europe, Russia, North Africa, Sub-Saharan Africa, and Australia and New Zealand (that is mostly dairy) are the areas people are looking actively to invest in.

I believe that's it. [applause]

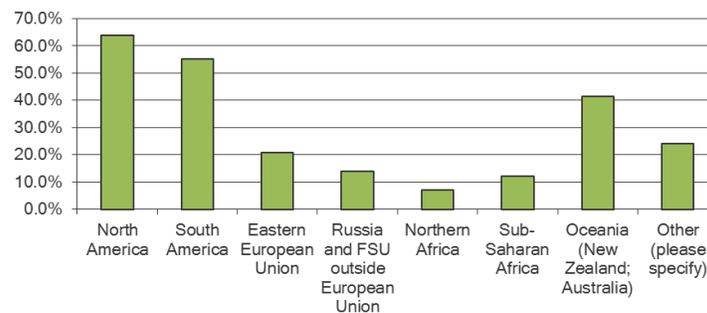
**Chart 4:
Investment Strategies
by HighQuest Conference Participants**

Which of the following asset types has your organization invested in and/or do you anticipate your organization will invest in over the next 3 years?
(Select all that apply)



**Chart 5:
Geographic Targets of Investment Strategies
by HighQuest Conference Participants**

Which of the following Geographic Regions has your organization invested, and/or do you anticipate your organization will invest in over the next 3 years? (Select all that apply)



Who Leveraged the Farm? (Transcript)

Tim Hopper

Director and Chief Economist

National Resources & Infrastructure Research Group

TIAA-CREF

Good morning. My dad was a good old-fashioned preacher, a Southern Baptist preacher in fact, and of course growing up I heard a lot of his sermons. I had to. As he's gotten older, how often I say, "Dad, I've gotten a lot of wisdom from you over the years. You taught me a lot with your sermons and your preaching, but one thing you've taught me most of all is to take your watch off and put it on the podium, because we Hoppers tend to talk long."

I am going to talk, not as an economist – although I am an economist – but as an agricultural investor. So we have a couple of statistics up there. And thank you for providing me some options for settling the arguments that investors use to get into investing in agriculture. I will talk about some of those, but really try to stay away from those.

I've noticed something. When Jim [Farrell] asked people to raise their hands to the question, "Are we in a bubble?" "Are we not in a bubble?" Maybe it was half. It was kind of inconclusive. Have we decided whether it is or isn't a bubble in the ag markets and ag land values right now? I would say no! I don't know the answer. I am going away today and I'll be more educated but my conclusion hasn't been reached. I don't know if we're in one or not.

So with that caveat, do you think maybe we're asking the wrong question? Let me phrase it to you this way. What if you decided your farmland was in an ag land bubble right now. What would you do next? What have we done there?

Let's change the question. With that in mind, let's play a game. We've been sitting here listening, there have been just a few questions. But there is one question in particular which keeps coming up. That's good, thank you very much. But I need to get a little more audience participation.

Who Bought the Farm?

So let's play a game. I suggest we play Jeopardy. I'll give you the answer and you give me the question that best fits the answer. The winner is going to take a walk with Jason [Henderson] afterward and he's going to the vault and get your money. [laughter]

Shake off those card games, get ready, get your hands on the buzzer, I'm going to give you the answer. Are you ready? What's the question to this answer? The answer is "yes." What is the question? [laughter] Oh, come on tell me, don't be so vain. So what is the question we need to ask? Is the question we need to ask "are we in a bubble in ag land values?" That's the wrong question. That's not the question we need to ask.

Remember I am talking to you from the perspective of an investor.

Let me ask another question. Maybe this is the question. If it is not whether or not we are in a bubble, what is another question we could ask? Any ideas? Is real estate a good investment?

Okay, let me ask you another question. Have we learned from past cycles? Are we better? Are things different? Is this cycle over? No, it's stretched. Maybe it's longer, but is the cycle over? Have we improved? Is the answer "yes"? No, that's the wrong question. We need to change the question.

Maybe a better question is, "Is everybody in this room an investor?" I would say you probably are. You invested in your education. You had a job. You probably had a bank account. You probably are saving for retirement. This is probably "yes."

Another question. You're probably interested in agriculture if you are at this conference. You're either invested in it, interested in it, you want to get invested in it. So the question is not, "What do I do about this thought of whether it is or isn't a bubble?"

Let's think about it a different way. How do I protect myself from the next cycle? With your knowledge, there are only two things that are certain – death and taxes. Let's add something to that – cycles. Cycles are here. They are here to stay. Every cycle is different. Every cycle will look different. Every cycle will be longer or shorter, taller, smaller, will go faster, will go farther, will go less far. It is one of the main reasons we as practitioners can't recognize bubbles when they are there. It is something you only recognize in hindsight.

Change the question that you're asking. Instead of asking, "What do we think about the current market?", instead ask, "How do I protect my own portfolio when the

Who Bought the Farm?

market turns?” If anyone wants – at least in this room – an allocation, how do you think about that? The most fundamental task of any prudent investor is to look at the lowest common denominator trend, the trend in fact that has the least amount of substitutability, and to invest in that trend. Everything else is imposed from the outside and we actually have little control over on that. What has been imposed on top of that trend is actually what causes the cyclical nature of the business. So the cyclicity on Wall Street is often called risk. We’re called suckers. It is actually imposed from the outside on the fundamental trend line.

Let me ask you another question. What is one of the few products in this world that you truly cannot substitute away from? Air, water, nutrition. You have to eat. As long as there is population growth, there is a very strong correlation to the amount of nutrition consumed on earth. We have to figure out a way to feed the people of the earth. It’s very a fundamental statement. As long as there are people and as long as the population is growing, there will be eating. Period.

On top of that very fundamental fact, if you want to substitute away from nutrition, what is the effect? Our existence, right? You have to eat. So when you do, then to get at that fundamental trend, everything else is a cycle. I can decide what to eat. I can decide where to buy it from. I can decide how to structure my farm. I can decide all kinds of things. But I can’t decide not to eat. In the long run, that is detrimental to my health.

How do you get at that and how do you protect yourself from all these cycles that are put on top of the baseline trend? That’s the goal of an investor. We can talk about all these fundamental trends and say, “That’s great. Demands have shifted.”

We can look at these cyclical things we have been talking about. But it is kind of like talking about symptoms. If you’re addressing a symptom and you’re chasing a symptom, have you really gotten at the fundamental reason? Have you really changed anything? We all say – and what any investor will tell you – that you really can’t get rid of that cycle, that you really can’t hedge all of that risk, but what you can do is work to minimize that risk. You can manage the effect of the cyclical forces on your investment portfolio. So that’s the goal.

We’ve talked about a couple of recent themes in this conference. One that has not been mentioned too much but one that is at the top of my list is productivity. Productivity

Who Bought the Farm?

at the farm level, of course, is much stronger than the rest of the economy. But, if you think about productivity in the last decade, it has started to slip. Yet, the productivity number, the top line number, looks okay.

What is productivity? Productivity is simply how much I am putting into the process and what I am getting out of that process from that input. It's that difference. What has been happening, if you parse the numbers, the input numbers are kind of sliding. Well, the output numbers are sliding, too. They are just not sliding as much. Productivity numbers in the last few years have been rather strong. But we get the output. The output in the sector has been coming down.

That will tell you that there is some fundamental support, at least on the demand side, or, if you will, the supply side can't keep up with the demand side. They are doctors, there are symptoms when we look at this, some of which say, okay, we heard this morning from Alan Featherstone that might be a bigger problem than we think, but we're not sure.

There are some other factors which might negate some of those debt factors. We're not sure. We're going to walk away from this one and say we not sure if we're in a bubble or not. What we'll tell you is, whether we are or not or aren't today, you will be on Monday. The rear-view cycle whether or not it happens today or next year, I can't tell you when that's going to be. I cannot. No one can pin that donkey on that tail. Instead, what we're going to do is look at the underlying factors.

What have you done at your TIAA-CREF? How do we approach this industry and where do we see this industry going? Over the years, we have invested to the tune of about \$2½ billion of our portfolio. We have assets in our management at TIAA-CREF of about \$500 billion.

A couple months ago, we established a new fund. It's \$2 billion in size and will be investing further, of course, in agriculture over the next several years. Our commitment is pretty strong. Our commitment is pretty stable. In fact, it is growing and we feel good about agriculture in general. But what can you do to protect yourselves from the cyclicity, from the risks in the market? We want to be there for the long haul. But what do we do to protect ourselves?

Who Bought the Farm?

From my perspective, the first thing you have to do is you have to look at this in a global perspective. This is not about land prices in the Midwest. _____ statistics, but I want to see some statistics you have for the West Coast, for the Delta, for Australia, where there is some correlation to land prices, especially in places like Brazil, Uruguay, and generally speaking in the United States – or let's say, in the Cornbelt. There is less correlation in certain sectors. You really have to parse the numbers and look at different geographic regions and you'll find there is no similarity, but there are a lot of regions as well that are not exhibiting the same type of price behavior movement as we've seen here in the Midwest. In the end, the theory we state and now practice, it has actually borne out this way, but this is the proverbial balloon. You squeeze one end and inflate the other end.

People don't stop consuming just because there is a supply shock. What happens in that market is farmers get hurt, but the profitability goes up on the other side. To protect yourself as an investor for your entire portfolio's investment trend, you have to be invested globally, diversely, and geographically. Not only geographically, but also by product type. And we do have a New York-diverse product type. We are not specialized in corn or soybeans. We have obviously the major row crop categories, but also have perma crop categories – wine grapes, nuts, avocados, fruits, things like that. Our portfolio is split roughly 80/20 – 80 percent in row crops and 20 percent in permanent crops.

If you look at diversification across the globe, you'll find that you have different behaviors at different times. You could protect yourself – at least to a degree – you can reduce the risks in that manner.

The second thing. We are equity only. We don't do debt. Period. We don't like debt and we believe fundamentally that debt sends the wrong signal when it's used improperly. I had an old finance professor whose adage was, "Leverage is like alcohol in the investment community." It makes you feel good, but it desensitizes you to the realities, the surroundings. That's good. It allows you to do things you weren't necessarily capable of before. It allows you to buy something, but at the same time it allows you to grow faster.

But that can, if you do too much of it, make you think you're better than you are. Maybe you are just lucky. That desensitizes you to your ability to handle that debt load in

Who Bought the Farm?

the long run. Moderation is fine, but it's easy to get too excessive in that category and that's when you get in trouble. Why? Interest rates will turn. I don't know if it's going to be next year or two years or three years or five years or ten years. But they will. And when they do, you had better watch how much debt you have.

Protect your investment. Don't have debt in it. As an individual, as a portfolio manager, no debt! If we can't be forced to sell, we don't have to be forced to sell. We won't be forced to take the market price that is prevalent at the time.

The third thing is we need to hire experienced tenants. The correlation here or the sentiment here is that we don't want commodity exposure. We want nutrition exposure and land, but we don't want commodity exposure. In this is an extremely volatile, extremely cyclical market, we try to stay away from it.

So what do you do? We buy land and we cash lease the land. That's what we do. What we are doing is building in a model that is much, much more stable in the long run. Furthermore, we hire experienced operators. Our average tenure on our tenants is about 20 years on our farms. We know them; they know us. We are very comfortable with them. They have the same philosophy on debt we do. Operating debt is fine, but let's keep it under wraps, let's keep it measured, let's do it the right way, and let's grow organically.

Fourth, we have people on the ground in every location that we will invest. We have to. It's such a labor-intensive process in the sense that this is real estate, it is still a local market, you have to understand the local market, you have to understand the community and what farmers and operators are thinking, and you have to understand the direction. There is a lot of information flow between a local arm and me in the research lab at corporate headquarters. So, you have to understand what is going on in the marketplace.

And, finally and probably most importantly, you have to invest for the long term. This is not a private-equity investment that I'm going to be in and out in three to five years, five to seven, or seven to ten. This is an ad infinitum investment. This is something that we intend to buy and stay. We will be there for the long haul. We have to invest through cycles. We know there are going to be cycles. There will be up cycles; there will be down cycles. But, if you invest through them, and you invest in a way that doesn't

Who Bought the Farm?

force you to sell them, then you will be protecting your investment in the long run and you will be able to continually get exposure to the income side of that equation and ultimately, eventually of course, to the appreciation side of that equation. That does it for me. Thank you.

Who Leveraged the Farm? (Transcript)

Jason Henderson

Vice President and Omaha Branch Executive

Federal Reserve Bank of Kansas City

Jason Henderson: Thank you, Tim. Thank you to all the panelists. At this time, we have a few minutes for questions, so feel free to step up to the microphone. We'll wait a little bit. I know it takes a little while to get there, especially from the outside parts of the room. As we are waiting for people to step up to the microphones, I have a quick question.

This session talked about productivity gains. It talked about it from a global scale. When you think about productivity growth, you mentioned there was Africa and earlier today we talked about China and yesterday as well.

In these emerging countries, what types of structural transformations do they have to go through to be able to increase their productivity? It might be land reform, financial restructuring, political institutions, infrastructure. How big is that challenge to really increase the productivity gain in these emerging nations?

Chris Erickson: It is pretty significant in some of them. It is not just the productivity boom. Look at Brazil as a perfect example. When you look at Mato Grosso, to get that product to port, you're looking at 1,500 kilometers by truck through some of the worst terrain. I'm sure most people here have seen the slide shows of them mired in the mud up to the axles. That is a long-term structural issue.

The BL 163 is being built going up to the north. There is a rail line going up to Rondonópolis, but that's been talked about for 15 years. Issues otherwise in Brazil we've been joking about with people here, but two years ago you had the reinterpretation of the law from 1972. This year you have the reinterpretation of the reinterpretation that is now being set forth in front of the Congress to allow and that was targeted specifically at the sovereign law funds, but it shut off everything for the most part. Now they're realizing

Who Bought the Farm?

there is a lot of capital. I've had a lot of interviews down there where some of the economists said, "We've lost \$4-\$6 million in investments for transformational land."

There are pockets of Africa where people are more comfortable with than others: Zambia, as I mentioned, Mozambique, Tanzania. Infrastructure issues abound. You do have a good base of farmers in many of these regions, particularly the ex-Zimbabwean farmers who were sent forth from their lands ten years ago. The knowledge is there, but the infrastructure and some of the capital constraints right now are there. That is what a lot of this is addressing.

Tim Hopper: I would second that point. It is really an infrastructure problem. If you look at the number of Middle East countries who buy ports in Australia, you look at the rail and road issues. This is in no way Kansas, Iowa, or Indiana. This is not Midwest farmland country. They don't have roads. You drive down there and you are literally driving on mud roads. If it rains, you wait. The transportation costs are astronomical. There are all kinds of studies from the U.N. and those types of groups that say, "We need \$80-\$100 billion in global infrastructure development over the next X years."

All of that is true, but what it really boils down to is, if you want to increase productivity globally in farmland, you are going to have to do these types of things. You will see governments now – which we are seeing already – taking care of their own infrastructure needs. This is a major category from the investors' perspective. It is a major category of investment for the future.

Chris Erickson: Just one other thing that was sort of interesting, and I've mentioned it to Tim [Hopper] and to a couple of other people, an interesting article that came out last week was China's Export-Import Bank got a loan for some infrastructure stuff in the Ukraine. Part of the repayment terms in this is 2½ million tons of corn. As part of the repayment, they are requiring corn to be delivered to China. It shows the desire or the issues of food security, when you have 1.4 billion people to feed and they are beginning to import corn, they want to make sure they have a secure supply. That was a shock to a lot of people last week when that was in the paper.

Damona Doye, Oklahoma State University: Good morning. Damona Doye, Oklahoma State. I would be interested in having some of our panelists comment on the changes in farmland ownership on opportunities for beginning farmers.

Who Bought the Farm?

Jim, you talked about 75 percent of the land being bought by farmers and, if they average 80 years old and if institutional investors want to have experienced operators on that land, what are the longer term implications for beginning farmers?

Jim Farrell: A very good question. It's difficult for younger farmers to get into agriculture today. They have to start out on almost an apprenticeship with parents or in-laws – someone who will help them get started. Of course, agriculture has always been that way, more so today than it has been recently because of the increase in input costs. So it takes a substantial amount of cash today.

If you compare back to the late 1970s and early 1980s, a high percentage of land was under a more participatory lease type than under a cash-rent scenario. It was a little different environment at that point, with a lot of sharecrop leases. They were very prevalent and any farmer could outfarm somebody else perhaps and get land, because they did a really good job. They can do that today, too, in a cash-rent scenario, but it's a little tougher, because they also have to have the ability to pay the cash rent.

We're seeing in our shop, if you will, a lot of younger farmers that are taking advantage of different lease types. For instance, we have what we refer to as a blended share lease that has worked fairly well with younger farmers, especially if the landowner has empathy for the younger farmer and wants to help them get started. In a blended share, the owner pays for all the seed, fertilizer, and herbicide; the operator would provide the labor and machinery in that scenario. They would get a percentage share of the crop and the owner would get a percentage share of the crop. The owner gets a bigger percentage than the operator, because they pay more of the cost.

In those scenarios, the operator can get a nice start. They participate in the increase in the value of the crop – if there is any increase in the value of the crop. We see a number of younger operators who want to do custom operations, as well, as a way of generating cash working with Mom's or Dad's machinery to operate additional acres.

There are landowners who have empathy for younger farmers, who are interested in trying to assist them in getting started. There are not lots of them, I would say. We don't have lots of landowners that are asking those types of questions of how they can assist a younger person get into farming.

Who Bought the Farm?

You are finding some of the retiring farm operators are actually taking an interest in that, as well. We do run across that in local areas, where retiring farm operators are trying help someone who wants to get started in the area and help them get a good start by providing labor, machinery, management, guidance, that sort of thing. It is a tough problem. I don't know that I have a real good answer for it. Do you all have anything else you want to add?

Tim Hopper: I was born in the city. If you find the answer, let me know.

_____ : I have a quick question for Tim. It has recently been in the press that you guys have raised a very large sum of money together with some international investors. I am curious, which areas within agriculture, segments or geographies do you think there is good value today?

Tim Hopper: The fund you are referring to is a \$2 billion fund. We raised a little over a billion and put in about \$800 million of our money to invest in core agricultural assets. The assets are focused in Australia, Brazil, and the United States for this particular fund vehicle. They mirror the investment practices that we've done to date, which is an 80-20 ratio of row crops to permanent crops. Permanent crops are mostly located in the United States, but not exclusively.

It follows that principal so fundamental to our investing principals. We want to be invested in the major grain-exporting regions of the world. There is less political risk if you can feed your people and produce enough to feed other people, as well. There is less risk if you are investing in core properties. In other words, on the margin if there is an issue, it's the marginal properties which have issues. It's the marginal players, the marginal operators, those are the ones on the edges that tend to suffer the most in a downturn.

So, to protect yourself from the cyclicity, you are going to invest in core properties. That's the equivalent of buying Treasuries, if you're in the Treasury markets. It's the equivalent of buying a property on Madison Avenue if you own commercial real estate properties. We are buying core assets in core regions of the world. And, yes, we are still buying in the Midwest. But we are also buying in Australia, also buying in certain places in Brazil as well, where the value proposition is a little different.

Who Bought the Farm?

What this global strategy allows us to do is to look at the value proposition in any given year, in any given geography region, and then shift your investment focus as needed over to other regions. That's what keeps me up at night, if that were the question, is making sure that portfolio is balanced properly. Because in the end, you want it to be that balloon I talked about. If you have issues here, then you perform better on the other end of your portfolio, the idea being that the entire portfolio needs to be as stable as possible through time. And that's the idea.

Jim Andrew, Andrew Farms: Jim Andrew. I'm a farmer, but everybody knows that already. One of the things I worry about and I realize we have a land-buying discussion and boom or bust, but I haven't heard much about diversifying your investments. I struck off on a program of buying McDonald's stock and I think that has been a tremendous return on my investment, just by reinvesting the dividends. Basically, you don't have to do anything but build up an account.

Do you have knowledge of whether farmers are very well diversified in their investments? I know they stick a lot of money in land, because I understand land, but don't we need to spread out our risk management across a wider base?

Jim Farrell: That's a great question. I was going to defer to you, Tim. We'll let Tim answer that question.

Tim Hopper: That's an excellent question. Most people tend to stick with what they know. It doesn't really matter what it is, whether you are a farmer or not a farmer. You tend to do what you know best and you tend to overemphasize that segment. Everybody is an investor and everybody should be thinking this way. You should diversify your portfolio. You shouldn't put all your eggs in one basket. We know that. Everything we learn, we need to go to kindergarten. All those things are all true. We should diversify, whether it's McDonald's stock or whatever else. We should be doing that.

Now, of course, we are here talking about a particular strategy. I am talking about a particular vehicle we use to invest in this, so all of my comments today are predicated upon that particular strategy. Remember at the beginning I said we have \$2½ billion out of \$500 billion. What is that? It's \$497.5 billion we have invested elsewhere. It's not in McDonald's stock. I don't know if you're aware of this.

Who Bought the Farm?

Certainly, everyone should be diversified. That should be your personal investment strategy as an individual.

Chris Erickson: Just to add to that, Tim. In looking from the institutional investor perspective, a lot of them are looking as a _____ looking at the United States. If they chose to go through a vertical that provides multi-geographic exposure that's one thing, but there are a lot of individual groups –John Hancock is probably the best well-known in the United States. They are core United States, but they have a little bit of Australia. There are other groups that are doing stuff down in South America, Africa, the former Soviet Union, and places like that.

To your point, talking from a farmer perspective, some of the phone calls I was getting last fall were from Argentines. So Argentines have been investing their own money into Argentinean land for a number of years. They don't want to keep money in the bank, because of other issues down in Argentina. What's happening now is they have been investing in Argentina and they have been investing in Uruguay, now they are saying, "Okay, you see them coming up to the United States."

I think it was maybe last September, there was a \$25 million purchase in Arkansas – I don't know if you remember this, Jim – but that's their \$25 million purchase in Arkansas. It was a band of Argentines who like farmland, but who wanted to get more of a geographic diversification, both from a political standpoint as well as from a geographic standpoint for crops. They are sticking with what they know, but you are starting to see people look at other areas of the world.

Jim Farrell: I don't have any particular insight into whether farmers have diversified portfolios or not. I can answer the question to a degree, though, on the non-operating land owner and those are the folks who own a high percentage of land. Land is just a part of their portfolio. In almost every case, folks we work with have inherited this land or they have purchased it with monies they have taken out of some other investment. In the case where they inherit a piece of property and they already have other diversified investments, it's been a very good investment. It's hard to go to a landowner conference right now with non-operating landowners where they are not all smiles and feel very, very good about their land portfolios. But I do know they are fairly well diversified in other investments.

Who Bought the Farm?

_____ : You talked about investments in land. What about other parts of the value chain or the supply chain? We have been looking at this conference in terms of multiples on land going up. What have been the multiples on, say, supply chain investments in other companies throughout the supply chain or other types of infrastructure?

Why would investors choose to go into land, which is an illiquid asset versus some other institution or company that might be more liquid to be able to get in and get out a little bit better?

Chris Erickson: We can all talk about it at the same time. There is a particular investor type who is looking at land and looking at North American land. This is a fixed-income replacement for them. This is purely a subset of their overall farm-goes-under alternative investments. This is really fixed-income investment looking at inflation protection, sort of like gold. As a couple people have talked about, “It’s gold with a coupon.”

Inflation protection, yes, but you get a coupon every year off of it. If you can get appreciation on your principal, that’s better. So if you can get 4 percent, that’s fine when you look at Treasuries today.

On the ag part of equity, as I will call it, that is a different investment thesis right there. And, when you’re looking at private equity, that is going to require a higher rate of return - the GSI example or the Gaviion example - that’s occurred over the past four years basically, since 2008. So it’s different. You see there are few people doing things like this in the space. There are probably about five funds right now; folks seem to like private equity.

Tim Hopper: I am going to agree with those comments. I guess it’s really a question of alternatives, right? We used to put money in the stock market and make money. That’s harder to do right now. So what are we going to do when interest rates are low? That puts the onus on real assets to bring return. Okay, how do I do that? I can’t buy an office building as individual - no, except for a very small one perhaps. So what am I going to do? Well, it used to be the housing market, but I can’t do that anymore.

So we’re going down this list of alternatives, land being one of them. Which alternative after that? Well, okay, buy a company. You are supposed to alphabetize your

Who Bought the Farm?

risks, right? There is operating risk, if you're going to buy it. If you are buying the stock risk, there is that type of risk. To a degree, we've seen positives and negatives about liquidity. Liquidity is good in general. At least, we talked about the efficient market hypothesis and rational expectations yesterday. That is true. It actually presumes you have liquidity in the market. But liquidity also means that all investors can run to the door really quickly and that quickens the pace of price movement.

If there is a direct increase in liquidity over a short time, then what you can also experience is the inability to make fundamental decisions and what you need to do as an investor is make fundamental decisions. You need to be able to preserve that right for yourself. You have to make fundamental decisions.

You shouldn't put yourself in a situation where you are forced to make a decision that you haven't been able to fully think through. That's one thing we've seen in financial markets is the huge amount of liquidity we have that is rushing for the door. The rush is in the door or the rush is out the door. It can't get forced into that herd mentality that "if I don't do it now, I'm really going to regret it later." So that makes me pull the trigger on making a decision when I might not have.

Land seems to have no operational risk. There are no SEC stocks, I don't have to be able to read an annual report from a company that I don't understand anyway. Maybe that is a better investment. It provides an alternative and probably is "a" reason at least to why land has become more attractive recently.

Jim Farrell: Just to add one comment to that. People are looking at North American farmland, in particular. You look at risk. You look at whether it is an office building or housing. People have invested in houses that are sitting vacant right now. For the most part, there is a 0 percent vacancy on rented farmland. The rents can go up and can go down, but you are going to have a tenant.

Tim Hopper: That is actually a really good point. I will tell you that we've never had a credit default on a tenant. Tell me another investment asset class where you can say that. We never had a credit default on any of one of our farms.

_____: Yes, they are all bigger than the dairy farmers of America. What's the institutional interest in, say, animal agriculture in production assets?

Who Bought the Farm?

Chris Erickson: There are several groups that are doing dairy funds – some in the United States. You see quite a bit of it in New Zealand and Australia right now. The New Zealanders love to tap themselves as the Saudi Arabia of milk. You see quite a bit of interest in dairy. You see more in regards to some destinations – chicken processing and things like that, and pig farming in destination markets over in China, there are some very large funds doing things in that area. I have seen dairy operations in Uruguay and Argentina. So it's there. It is a subset of what we're discussing.

Tim Hopper: And we don't actually own any livestock-dairy investments. We stick to row crops and permanent crops. They can't run away from us – just kidding. [laughter] We have a very disciplined investment approach. What we generally do is build a platform of knowledge before we start investing in something. That's not something we have the expertise in-house on staff to evaluate, so we just don't do it.

Chris Erickson: Having cattle – in cattle you see a tremendous amount in Australia. There are quite a few pastoral funds, as they call them down there.

Jason Henderson: Well, I have one final question before we close this session. As we think about the cycles and what's going forward, what are the one or two indicators that everybody in this room should be looking at to identify when the next cycle turns, whether it goes down or whether it goes up further? What should we be looking at?

Jim Farrell: Interest rates.

Tim Hopper: Interest rates.

Chris Erickson: That would be one.

Jim Farrell: For me, it's interest rates and debt.

Chris Erickson: You want to watch the level of debt. There is nothing wrong with it. Leverage on the farm, how leveraged is the farmer is very important. When the environment changes, is he going to be able to handle that debt load? So you have to watch interest rates, because interest rates will turn. Everything will turn exports, but interest rates is the big one.

Jim Farrell: I would be in full agreement with those two.

Jason Henderson: Thank you to our participants. [applause]

Who Bought the Farm?