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US Agriculture Farming For Institutional Investors

U.S. farmland is ripe for the picking for institutional investors, according to investment firm US Agriculture.

That belief does not just come from marketing pitch books, it comes from experience working as and with farmers.

“We’ve been in their shoes. We understand the complexity of farming, the challenges of farming,” said David Martin, managing director of US Agriculture, which was created through the 2016 merger of two businesses run by long-time farming families: Hageman Group and Halderman Real Asset Management.

Martin, who grew up on a pork and grain farm in central Indiana and has previously worked in various capacities for a worldwide pork producer, said the two families were like-minded and shared common values that led to the decision to merge rather than compete.

In the institutional space, Martin found success early on after joining Halderman in 2008.

“After the 2008 financial crisis a lot of the pension space was looking at tangible assets, increasing real assets in their portfolio, and so our timing was perfect. After 2008 there was much more interest in farmland as an asset class and specifically as a subset in real assets,” he said.

The firm received separate account mandates from the Arkansas Teacher Retirement System in 2010 and New Mexico Educational Retirement Board in 2012 and received a second commitment from the New Mexico plan in 2018, according to FIN Searches.

Evan Newton, director of business development at the Carmel, Ind.-based firm, has seen interest in farmland grow as institutions have progressed their real assets allocation beyond real estate and infrastructure.

“Toward the end of last year, the conversation was largely driven by farmland as a fixed-income replacement. Frankly, you can generate an attractive yield in farmland, especially when interest rates are zero. More recently, especially to start the year, conversations have been more around farmland as an inflation hedge," said Newton, who grew up on a grain farm in central Illinois as the son of a fourth-generation farmer. "It's always inflation hedge, fixed-income replacement, diversifier, the lack of correlation to equities and then protection of capital."

To accomplish that, the firm looks to invest in the right crop in the right geographic region using the right soils and right irrigation water with a best-in-class partner, Martin said.

"The key piece of farmland is you have to have a long-term vision. This is not an asset class that you trade into and out of every two to three years. You need to have a ten-plus year horizon if you are going to get into the space and do it well," Martin said.

Doing it well consists of building a diversified portfolio that includes the Midwest, Southeast, Pacific Northwest, Pacific West, Mountain and Delta regions.

"If we can build a nice portfolio of assets that captures a minimum of three of those regions, up to five or six, then we've done our job at building a diversification regionally and that also usually drives a crop type diversification as well as an aquifer and operator," Martin said, noting that the firm often works with operators that have a succession planning need.

"For example, the firm can do a sale leaseback that allows the family to get some equity out of their farmland while allowing them to continue to farm the land. We think that's the best win-win relationship because the family's usually been on that land for 20 to 40 years and we want them to stay for another 20 to 40 years," he said.

Martin said the firm likes the operator subset because they are the ones that want to grow their business.

"They're looking to capital partners that they can trust and can bring them value other than just bringing capital. We can do that by understanding their business, helping to anticipate their challenges and they then help us make the property better," he explained.

Martin finds the farmland space is extremely constrained in terms of what is coming to market to buy, explaining that in a roughly $2 trillion marketplace, there is roughly $6 billion to $12 billion in tradable assets available in a year, which makes the team's experience in the space and relationships vital.

"Not all of those come to market. Many of them are off market and so I think that's probably the biggest thing is people put their toe in the water and look at it and say, 'that's tough. How do we go and participate in that and scale it?'" he said.

Experienced farmland investors fill that void.

“I think the thing we all offer is unique relationships. Agriculture is vast and wide and the age of the farming community is doing nothing but getting older year after year. Many of these properties go back to being homesteaded in the 1800s, so as generations get away from the farm and don’t have the emotional tie, what we’re finding is selling it becomes the next option and so having those deep relationships is key to our business,” Martin said.

The firm looks to invest in directly operated permanent crops like tree nuts, blueberries and apples as well as in annual crops like soybeans, wheat, corn and peanuts where the land is leased to the farmer in return for a fixed cost or a percentage of the year’s production.

“A lot of what we do is in the fresh food space, so it’s perishable … we like that space because there are marketing windows that only this crop in this area fit into. We try to find opportunistic marketing windows. We feel like what we are good at is that we are farmers and understand the business of farming. So, if you’ve got capital and you understand the dynamics of farming, then you can be very productive in certain marketing windows,” Martin said.

He explained that with perpetual crops like apples, it can be expensive to make a switch from one variety to another.

“Many times that takes a significant amount of capital that the farmer just doesn’t have or doesn’t have the lifespan or the vision to really take advantage of that over the next 15 to 20 years and has hesitated to make those improvements. But if we have a common vision [where] that person might transition in the next five to 10 years and his nephew is going to come in and take over and we’re willing to invest the capital, then you have a real winning combination there,” he said.

Farmland can also provide an opportunity for investors focused on sustainability.

“Farmland is a natural, exciting opportunity from a sustainability standpoint,” Martin said, noting that the firm is in the process of a being certified for the Leading Harvest Farmland Management Standard, which is designed to optimize sustainable farmland management.

“Our challenge every day is to get out and understand ways to reduce that carbon footprint. You can do it through technology, you can do it through changing your tillage methods, you can do that with your crop rotation. [There are] lots and lots of ways in farmland and farming to look at how to reduce that footprint. It’s going to be more and more of a focus for us. It’ll be a continuous improvement process,” he added.

Ultimately, Martin said the firm’s bestselling point is the ability to see and touch the investment.

“Our strong point is to put the boots on and drive the pickups out and actually introduce a prospective investor to an operator we work with and let them interact with the people on the ground that we’ve selected,” he said.

Newton sees the institutional interest increasing, especially as sustainability initiatives come to the forefront.

“They’re getting there. I can’t say it’s going to be a tidal wave of capital, but the education continues. And I do think the sustainability piece is newer to this space and investors are starting to understand what the benefits of that can be through investing in farmland,” Newton said.