Investors Want Bigger Farms

Agriculture Continues to Look Volatile, But Attractive Over Next Decade

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CHICAGO (DTN) -- "Recalibrating to the New Normal" could mean preparing for further consolidation in agriculture with farm operations five to six times larger than they are now and more institutional investment in farmland due to a lack of arable ground and a steady, rising demand for food globally.

The DTN/Progressive Farmer Ag Summit kicked off Wednesday with more than 600 registered producers and agribusiness people hearing about projected farming trends over the next decade, as well as what is attracting institutional investors to pump more money into agriculture.

Retired president of Cargill Cotton Gary Taylor said farmers will likely see more commodity volatility over the next decade. (DTN/The Progressive Farmer photo by Jim Patrico)

Gary Taylor, retired president of Cargill Cotton, who now runs an agricultural investment firm, as well as farms and manages more than 11,000 acres in the mid-South, said farmers will likely see more commodity volatility over the next decade. He said countries have reduced their global stocks, while there also seems to be no slowing the growth of food consumption globally.

Market factors could lead into a period of hyper-inflation, as commodity prices and farmland jump, as do food prices and interest rates. That spills over into government policy -- after the current reprieve on tax increases -- that do eventually reflect higher taxes, particularly in capital gains, Taylor said.

"I happen to believe that it's very possible this upcoming decade could be a lot like the '70s," Taylor said.

The biggest unknowns looking into the next decade are directions on government fiscal and monetary policies.

Taylor examined how different regions of the world look in the coming decade in two key resources: food and energy production.

The world's current economic star, China, faces challenges as its growing middle class and demand for protein continues to outstrip food production. The cheap-labor era is coming to an end, while the country's population also is aging and stagnant, he said. An 8 percent growth rate in protein demand and a country with 47 percent of the world's hogs will continue to help drive global commodity prices.

"Food security is a huge, huge issue in China," he said.

Domestically, row-crop consolidation will continue in agriculture, with increased capital requirements and rising land prices further fueling population. An aging population of landowners, also fearing future possible higher capital-gains taxes, will eventually sell off more land as well.

Size will matter, Taylor said, as larger operations could squeeze out as much as $100-an-acre advantages in production costs and net income over smaller operations. Thus, the number of 3,000-acre farms potentially begins to turn into 15,000-acre to 20,000-acre farms in 10 years.

"There will be a significant number of 50,000 acre producers by 2020," Taylor said.

The 2007 Ag Census shows that the average farm size was 418 acres out of roughly 2.2

million farmers. But the census also showed that just under 80,400 farm operations had 2,000 acres or more and among that larger block, the average farm size was more than 6,100 acres.

Taylor later noted that those larger operations in the next decade will likely be lease operations and not land ownership. More of them also will be corporate in ownership or management. He added that such farms are already more common in Brazil and Australia.

"I think we're probably headed down that path," Taylor said.

Investment funds also will continue to find farmland more attractive, but even with a surge in institutional investors, those groups would continue to own only a small portion of farm ground. With 400 million production acres, institutional investment could grow five-fold and still likely only own roughly 1 percent of farm ground, Taylor said.

Institutional investors are excited about farm land, but that doesn't necessarily mean corn, cotton and wheat acres, said Jeff Conrad, president of Hancock Agricultural Investments. His group controls about $1.4 billion in agricultural investment portfolio -- about 200,000 acres -- up $300 million in the last 18 months alone. But that land includes a mix of crops including 16 percent wine grapes, 13 percent pistachios, 13 percent almonds, 11 percent corn and soybeans, 10 percent cranberries and a wide array of other crops making up the other 37 percent.

"When you are diversified, if the cranberries aren't performing, the almonds and pistachios might be," Conrad said.

Along with that, those permanent nut and berry crops that Hancock directly manages generate anywhere from 8 percent to 14 percent current returns, while row crops that Hancock typically leases to farmers will generate 4 percent to 6 percent current returns.

Over the long term, Conrad said, farmland offers institutional investors a hedge against inflation, because appreciation in land values and increased output and reduced expenses per acre, particularly by larger farms, leads to higher returns on the investment.

"That higher income gets capitalized in the land values," he said.

Conrad also dismissed talk that more investment in farm land is potentially leading to a bubble, saying USDA shows farmer debt levels are projected to decline $10 billion this year alone.

"Usually in a bubble you don't see debt levels going down," Conrad said.

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