How to Profit From Farmland…Without Ever Owning a Farm

By Jeff D. Opdyke

A *Global Intelligence* Report

Jeff D. Opdyke has been America's Personal Finance Expert for over twenty years now, including 17 years at *The Wall Street Journal* (where he literally wrote the book on the topic).

Today, he lives in Prague where he writes the monthly newsletter *Global Intelligence* as well as the daily newsletter *Field Notes* in which he explores topics from income investing to NFTs and everything in between.

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How to Profit From Farmland…Without Ever Owning a Farm

Raw soybeans taste hideous.

I know this only because of a tour I took through a Uruguayan soybean farm a few years ago.

I was there with my friend, Sebastian, the owner of a local farm-management company, and I wanted to know if soybeans right off the stem taste anything like the *edamame* I order at Japanese restaurants.

They don't.

I was visiting rural Uruguay as part of my effort to show American investors the opportunities that exist in farmland. It's a message best summed up by the bumper sticker on Sebastian's Toyota pickup: "*El Futuro Esta En La Tierra*!"

The future is in the land.

Perhaps a truer bumper sticker has never been printed, because no matter where you find it—Uruguay, the U.S., Brazil, the black soils of Eastern Europe—farmland is the future.

There's a very simple reason for this. As the clichéd punchline about land notes: They're not making it anymore.

In fact, when it comes to farmland, they're taking it away.

Every year, cropland slightly larger than the size of Delaware falls victim to development in America. The U.S. Department of Agriculture's 2017 Census of Agriculture (the most recent) reported that American farm acreage over the previous five years had vanished by the equivalent of nearly 22,400 square miles. That's almost all of West Virginia…poof!

Globally, the trend is just as bad, if not worse.

Modernization and Westernization are steam-rolling across developing nations, changing agricultural economies into industrial and commercial ones.

As a result, over the last four decades, the world has lost one-third of its arable land—even as the number of mouths to feed on planet Earth has increased by 78% in the same period to around 8 billion people.

Fewer and fewer acres of farmland to nourish more and more people.

That math is a huge problem.

To be sure, technology is coming to the rescue to some degree. We have more efficient agricultural practices...better use of land and machinery...drones and other bits of whiz-bangery that can precisely gauge fertilizer needs for individual parcels of land.

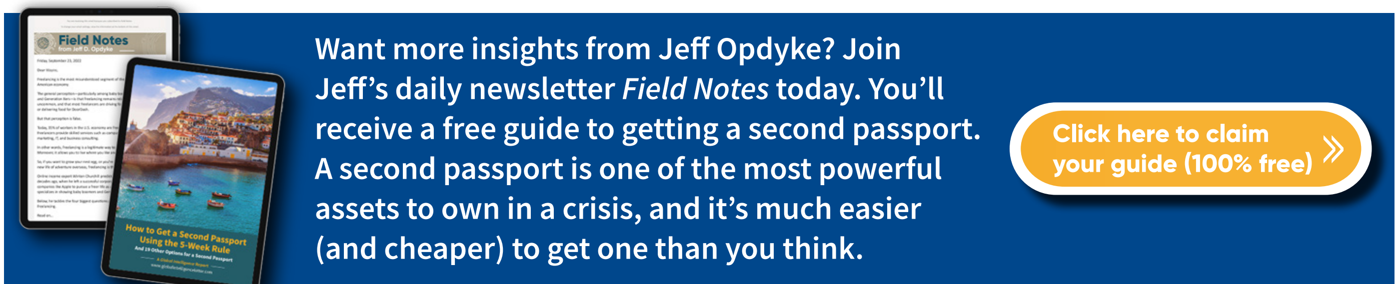
Still, farmland itself remains the most crucial factor in feeding us all. There are no signs that will change in our lifetime—or even our kids' or our grandkids' lifetimes.

And because farmland is increasingly rare, it's increasingly valuable.

Which means that farmland deserves space inside a diversified investment portfolio.

That doesn't mean, however, that you need to rush out and buy a farm. Nowadays, there are numerous easy ways to gain exposure to farmland, including many options that you can access through a standard brokerage account.

But before we get to the wealth of farmland investment strategies available to us, we should first understand the nature of farming today…and why there's never been a better time to invest in it.



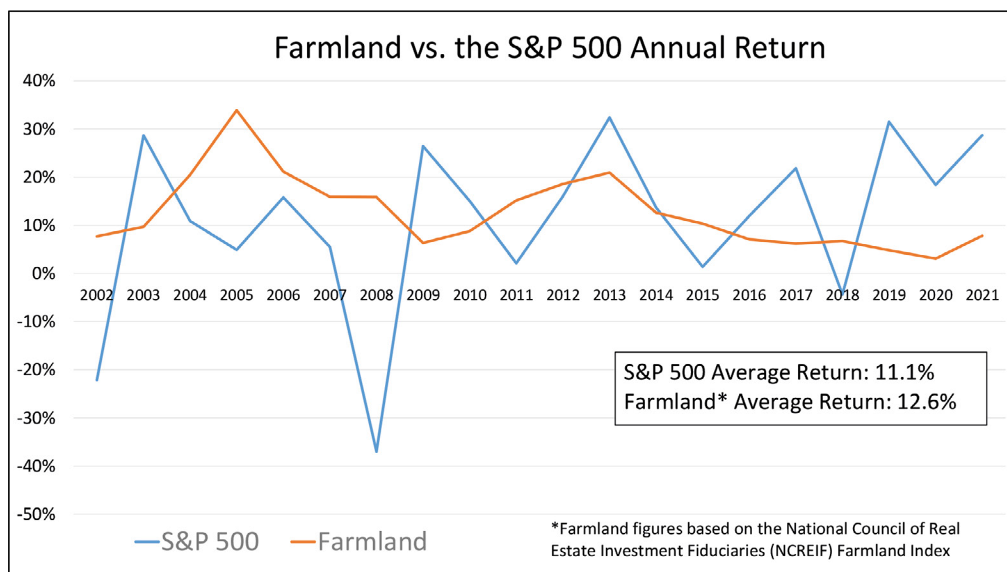
The New Farming Boom

I've been investing in farmland and food commodities throughout my 40-year investment career. I've invested in dairy in New Zealand, palm oil in Malaysia, and a fertilizer maker in the States.

I've specifically focused a portion of my investment wealth in this space because food is one of the essential consumer categories. We can all live without the latest fashion. No one needs the hottest new automobile. But everyone needs food. So, I have long been a proponent of owning the building blocks of the food pyramid: farmland and all the ancillary businesses needed to turn a parcel of earth into a bushel of wheat.

This strategy has added not only stability to my portfolio…but a surprising amount of growth.

Over the past two decades, farmland has been quietly outperforming the S&P 500 in terms of average annual returns while offering far less volatility, as this chart shows:



While I've long been a proponent of farmland investing, I've never been more bullish on it than I am today. Here's why:

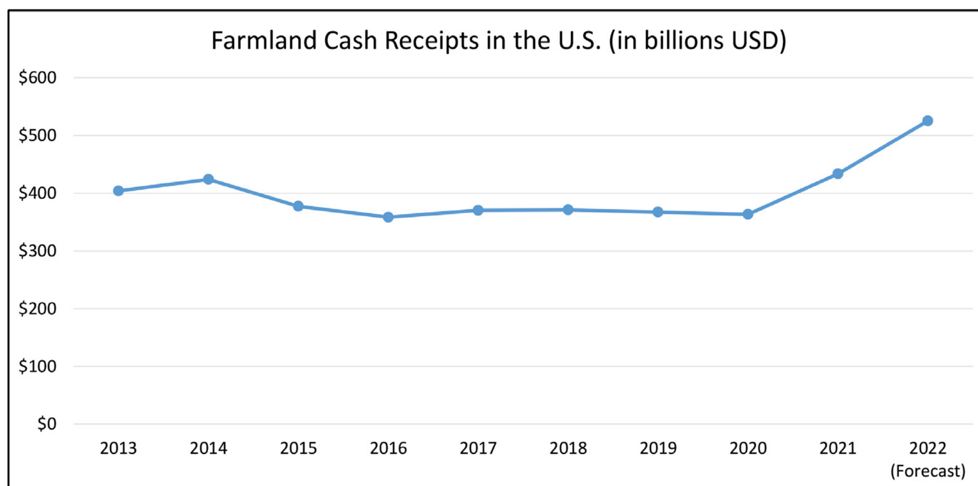
Farm income has recently surged to levels not seen in a decade.

The USDA's Economic Research Service reported in September 2022 that inflation-adjusted U.S. net cash farm income—gross cash income minus cash expenses—is projected to increase by $13.5 billion to $168.5 billion in 2022. That's its highest figure since 2012.

Meanwhile, net farm income—which includes non-cash items such as changes in inventories—rose a massive $44.4 billion in 2021 to its highest level since 2013, and it's expected to remain broadly flat at $147.7 billion this year.

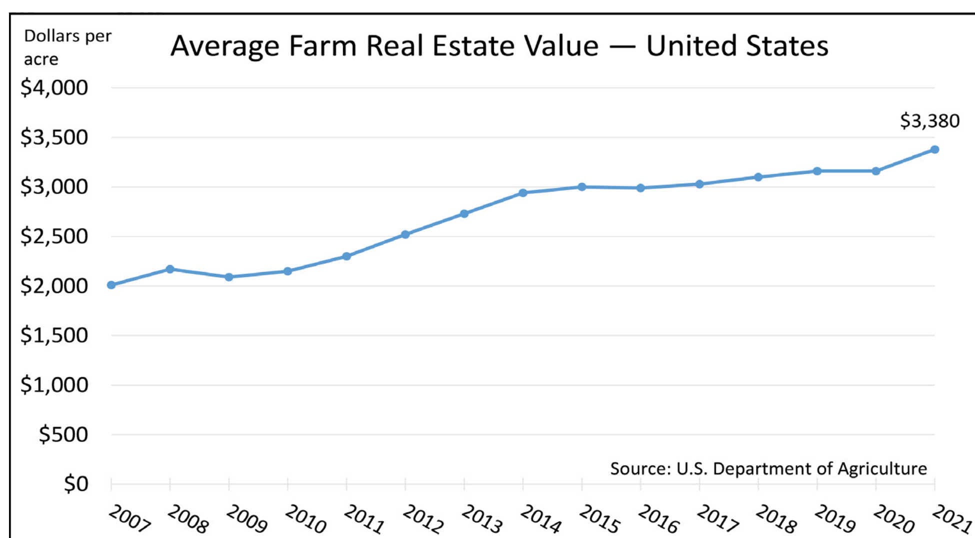
Some of that income, of course, is government money that flows to farmers annually through all sorts of federal assistance programs. But a large portion of it comes from so-called "cash receipts," the money farmers collect from selling their crops.

If the USDA is right, cash receipts will top $525.3 billion in 2022, up 14.4% from last year to their highest levels on record.



In short, farm income has been booming in recent years…which, in turn, is making the land needed to grow food more valuable.

The average price for an acre of American farmland has been in an uptrend since the end of the global financial crisis in 2009. You can see that in this chart of farm real estate from the USDA:



This is why we want to own exposure to farmland. Crop prices are headed higher, as are land values. And this upward movement is primed to continue.

In fact, I expect farmland values to surge sharply higher for the next several years, even a decade or more, because of a major trend impacting the global economy…something that has happened just three times in the past century—a commodity super-cycle.

The Trend Pushing Land Prices Higher

Commodities are the raw materials, basic resources, or agricultural or mining products that serve as inputs for other industries…everything from oil and iron ore to sugar and grain.

The important point to note about commodities is that they don't act in the same way as other asset classes like stocks and bonds.

With stocks, certain segments can be doing well while others are faltering. For instance, tech stocks might be significantly outperforming value stocks because the economy is strong and investment capital is freely available.

Commodities are different. They tend to move together, in sweeping upward and downward trends.

On three occasions over the last century, commodities launched into a so-called super-cycle—an upward trend that lasts a decade or longer and which sees commodity prices shoot the moon.

The first commodity super-cycle occurred amid the rapid industrialization of the U.S. in the late 19th and early 20th centuries.

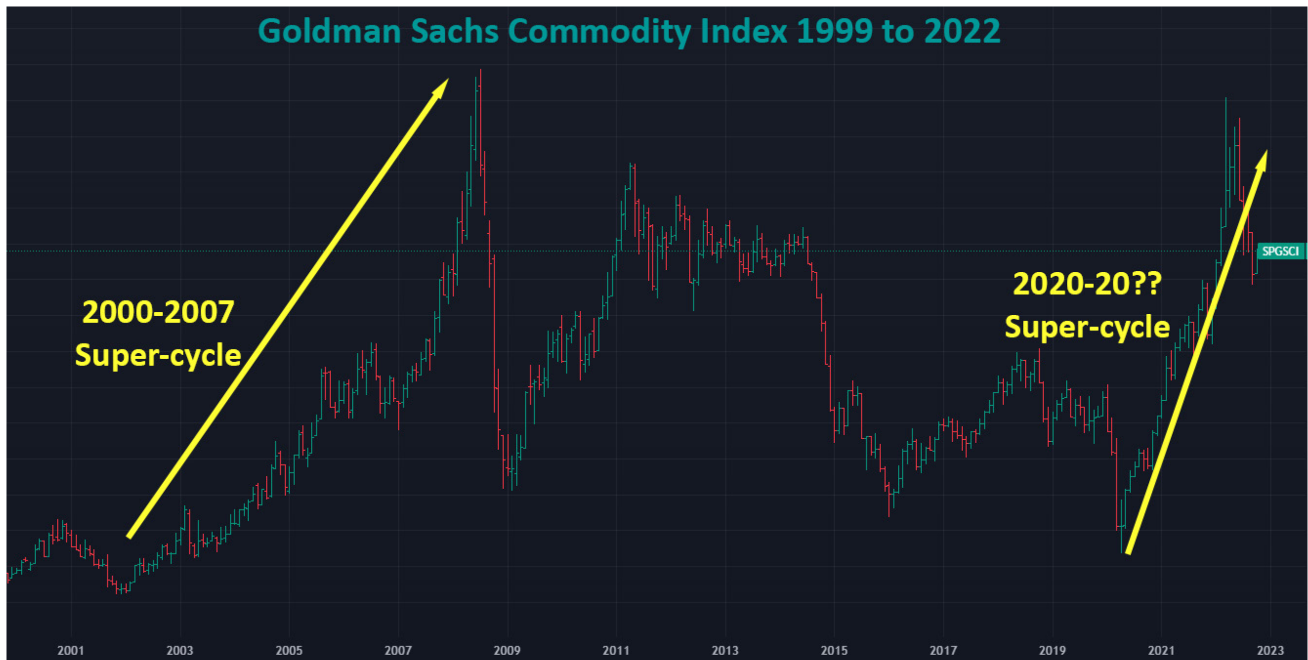
The second sprang from the emergence of the Western European and Japanese middle classes…a process that didn't really begin until Europe and Japan had fully rebuilt in the decades following World War II.

And super-cycle number three—the most recent—was caused by the rise of the so-called BRIC nations (Brazil, Russia, India, China) as they began their climb out of poverty.

The global financial crisis in 2007-2008 killed that third super-cycle prematurely, causing commodities prices to fall hard.

That largely explains why inflation barely touched your wallet in the decade before COVID. Goods were very cheap to produce, because the prices of raw materials were so low.

But now that's changing…we're in the early stages of a new, fourth super-cycle. This one, however, will be different.



The last three super-cycles were all driven by the rise of middle-class economies, first in America…then Europe/Japan…and then the major emerging markets.

This time, the driver is global monetary policy.

For years prior to COVID, governments were pouring money into their economies in significant quantities. But when the pandemic came along and shuttered the global economy, the pace of money printing escalated massively. In essence, governments around the world unleashed firehoses of free cash.

The U.S. alone spent roughly $7 trillion on economic stimulus funding during the pandemic. (And yes, that's trillion with a T!)

After the pandemic ended, no one shut off the firehoses. In the U.S. and around the world, governments have continued to spend.

Since just November 2021, President Biden has signed both a $1 trillion infrastructure bill and the $750 billion Inflation Reduction Act. China is also planning to spend $1 trillion on new infrastructure, according to a report from Bloomberg. And the U.K. last year unveiled a record £625 billion infrastructure plan.

More money means more spending, which means rising demand for raw materials.

That includes the metals needed to build bridges and wind turbines and nuclear plants. But it also means consumers buying lots more products with agricultural inputs.

All that money sloshing around the global economy pushes the price of all commodities higher. We can see this in the inflation we feel in our daily lives. And we will feel it for years to come as this commodity super-cycle plays out.

That, in turn, means that the price of farmland—the key resource needed to produce agricultural commodities—will continue to rise.

But the super-cycle is not the only global trend impacting the price of food, and thus the value of farmland.

You see, global demand for food is not simply increasing, it's shifting…

Changing Global Diets

In the spring of 2020, researchers from the World Bank and the International Food Policy Research Institute published a report which concluded that rising global demand for food is not actually about the increasing number of stomachs in the world.

That seems counterintuitive…until you realize what culprit is really driving demand: money.

In recent decades, the gap between incomes in the developed and the developing world has been narrowing. Crucially, this is fueling increases in demand for different kinds of food.

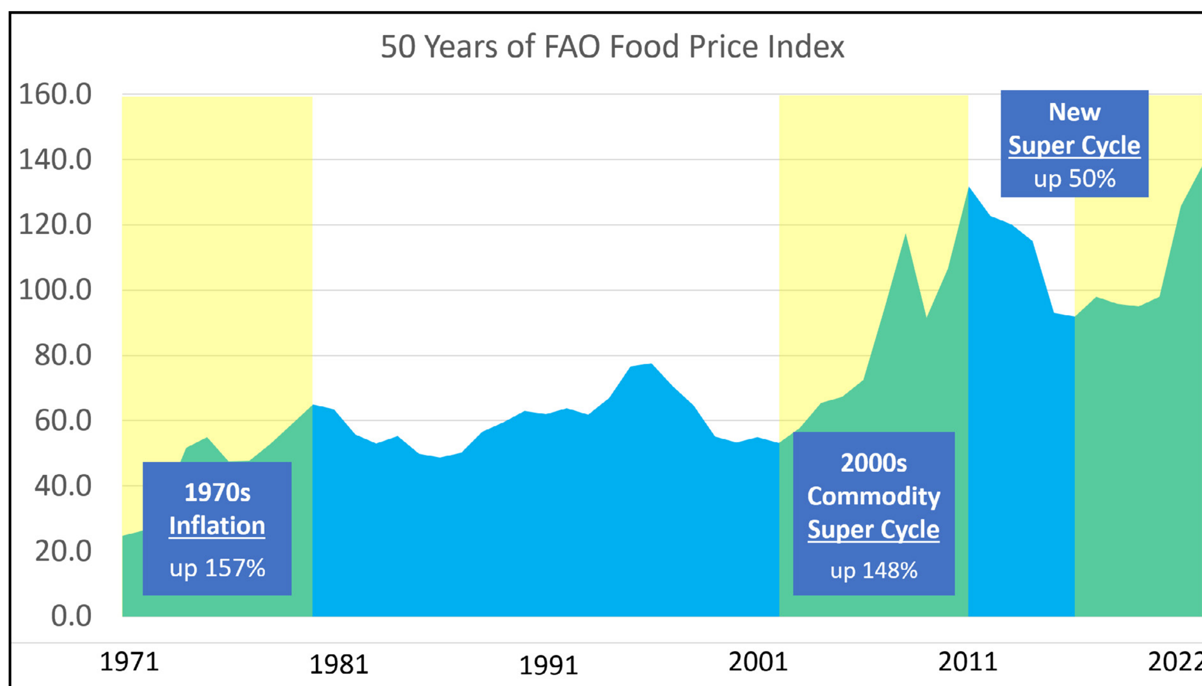
Pew Research estimated that the global middle class stood at about 1.34 billion in 2020. That number is projected to soar to as high as 5.5 billion by 2030, according to the European Commission.

Already, consumers with disposable income in Asia, Africa, Latin America, and elsewhere in the developing world are moving away from starch-heavy diets tied to rice, potatoes, and grains.

Now, they're demanding more meats and fruits and veggies and dairy…foods that require more land to produce and support.

That leads to an even bigger takeaway from the study: As the rest of the world approaches Western income standards, demand for food could eventually exceed the supply of food.

The obvious result: upward pressure on world food prices.



We've not reached that tipping point yet—that's still some years away—but we are clearly seeing a long-term trend of higher and higher food prices.

Take a look at what's been going on with food prices globally. The chart above is from the U.N. Food and Agriculture Organization (FAO), which has been tracking world crop prices for decades.

The primary point I want you to take away from this chart is this: Look at all the peaks and troughs. Every one of them is higher than the last—what investment analysts call "higher highs" and "higher lows."

That's a bullish sign if you're an investor.

It's a painful sign if you're a consumer.

It means food prices will continue their march higher.

In the last peak in early 2011, the FAO index topped out at just under 137, having gone on a decade-long run higher from a reading near 50 in 2002.

Now, we're in the midst of a new era of high inflation and a commodity super-cycle. The index has already surpassed the previous high in recent months (the reading was 138 in August 2022).

Given the rising demand for more crop-intensive foods (meat and dairy) as developing-nation incomes converge with the West, the FAO expects that by 2050, the world will require 1 billion additional tons of grain each year.

That's basically double the amount of grain the U.S. produces annually.

Which is why we're likely to see the FAO index surge well past 250 in the years to come.

All of this plays through the farm patch.

Farmland is going to generate increasing profits as global demand for food—and particularly farmland-intensive food—persistently climbs higher from here.

That's not to say there won't be ups and downs in food commodity prices. Of course there will—this is commodities, and commodity prices fluctuate on a month-to-month basis.

But in the long run, crop prices are heading in one direction: higher.

Which is exactly why I want to own exposure to farmland.

Do You Know The Other Crisis Asset You Should Consider?
(It's not gold or silver)

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5 Ways to Play Farmland

There are a number of ways to invest in farmland without having to actually buy your own corn patch. Here are the best options, many of which you can easily access through your brokerage account.

1. REITs

The closest you can get to owning farmland, without buying it directly, is through a farmland-focused real estate investment trust, or REIT.

REITs are companies that own income-generating real estate. By pooling capital, they allow individual investors to profit from real estate without having to buy or manage properties themselves.

Many REITs are publicly traded, meaning you can buy them through your standard brokerage account just as you would any stock. REITs are popular plays among income investors since these trusts must allocate by law 90% of their income as a distribution (essentially a dividend) to shareholders.

The overwhelming majority of REITs are focused on residential or commercial properties, but there are two prominent trusts focused on farmland: **Farmland Partners (symbol: FPI)** and **Gladstone Land Corp. (LAND)**

Farmland Partners owns more than 190,000 acres of farmland from California to Florida. The company doesn't do any of the actual farming…that's left to roughly 100 tenant farmers who rent the land and grow the crops dominant in their region.

The company generates the bulk of its income from the rent it charges those tenant farmers. It also shares partly in the value of the crops those farmers grow and sell.

Right now, about 70% of Farmland's portfolio is so-called primary crops such as corn, soy, wheat, rice, and cotton—crops that have never-ending demand on a global scale because they are the basis of so many other products. The other 30% of the company's farmland is specialty crops, including berries, citrus, nuts, beans, and veggies.

Basically, then, the crops that grow on Farmland's properties end up as everything from burgers to animal feed, to packaged food products and the ingredients that go into restaurant meals.

Gladstone operates under a similar model to Farmland, though it is smaller in terms of total cropland owned. The company has 115,288 acres across 169 farms in 15 states.

Gladstone offers access primarily to fruit and vegetable crops. There is nothing wrong with that. Those crops tend to carry higher profit margins. But personally, I am a bigger fan of basic crops like corn, wheat, and soy since they are the building blocks for finished food products and are in demand all over the world at unquenchable levels. So, I favor Farmland Partners.

2. Agriculture & Commodity ETFs

Exchange-traded funds are basically mutual funds in a slightly different form. They own baskets of stocks or bonds or currencies, and can either be broadly focused across the overall market, or they can be highly specific to one asset.

In terms of agriculture, they are an easy (though certainly not risk-free) way to play everything from the sector as a whole to individual food commodities.

For instance, the **Teucrium Agricultural Fund (TAGS)** offers exposure to the prices of corn, wheat, soybeans, and sugar through a standard brokerage account. Teucrium also offers individual ETFs for each of these commodities.

For wider exposure, the **Elements Rogers International Commodity Index—Agriculture Total Return (RJA)** represents a huge basket of 20 globally traded commodities, including coffee, sugar, orange juice, soybean meal, and milk.

The fund bears the name of Jim Rogers, the legendary hedge fund investor known for his investment thesis that the rise of the middle class will mean greater pressure on food crops.

These ETFs' returns are based on trading so-called futures contracts on those commodities, so they're as pure a play on individual commodities as you will find, outside of trading futures yourself (and that's a risky game). However, since they're tied to futures markets, there are lots of caveats and costs to be cognizant of with that.

Futures contracts, for instance, expire and must be replaced in a process known as "contract rolling." There is a cost associated with that and so it eats away at your gains. In certain situations, those contracts may need to be replaced at a higher cost, which can destroy returns.

The alternative to an ETF is a mutual fund focused on commodities and the agriculture industries. Like ETFs, mutual funds are baskets of assets like securities. The major difference between ETFs and mutual funds is that ETFs can be bought and sold at any time during market trading like a stock, while mutual funds can only be bought at the end of each trading day. Mutual funds are also more likely to be actively managed and tend to come with a higher minimum investment requirement.

Prominent mutual funds in the commodity space include the **Fidelity Global Commodity Stock Fund (FFGCX)**, **Invesco Balanced-Risk Commodity Strategy Fund Class A (BRCAX)**, and **BlackRock Commodity Strategies Fund (BICSX)**, though those can offer exposure to a range of commodities beyond agricultural goods. Meanwhile, the **Fidelity Agricultural Productivity Fund (FARMX)** is focused primarily on investing in stocks of agricultural producers that are helping to boost crop yield and overall agricultural production.

In the choice between farmland-focused ETFs and mutual funds, I believe ETFs offer greater investment flexibility and lower fees, and as such are the best option for most investors.

3. U.S. Agricultural Stocks

There are not a lot of direct agricultural plays in the U.S. stock market, meaning very few that are focused exclusively on actually growing and selling crops. Most tend to be tangential plays, such as food processors that are turning raw ingredients into finished or semi-finished products, and that's a different animal.

But there are a few companies that are tied tightly to agriculture in various ways—everything from companies that provide seeds to farmers, to those that process crops and sell fertilizers and farm equipment.

For instance, **Bunge (BG)** and **Archer-Daniels-Midland (ADM)** are huge suppliers of seeds, edible oils, and all kinds of inputs that cross tons of food production categories. Then there's **John Deere (DE)**…the global leader in farm equipment.

One of the most popular ways to gain farmland exposure through agri-stocks is by buying a fertilizer maker. The big American names in that space are **The Mosaic Company (MOS)** and **Intrepid Potash (IPI)**.

Though rare, there are also a very small number of public companies that actually grow and sell crops, such as **Limoneira (LMNR)**, which farms citrus fruits and avocados, or even **Cal-Maine Foods (CALM)**, which operates egg farms.

However, my favorite way to gain farmland exposure in the stock market is by focusing not on U.S. stocks, but…

4. Foreign Shares

U.S.-listed shares of foreign companies offer far greater access to agriculture opportunities around the world and a far broader selection of crop exposure.

Big players in this space include **SIPEF (SISAF)**, a Belgian agri-giant with its fingers in everything from rubber to tea to bananas and palm oil…Australia's **Select Harvests (SHVTF)**, one of the world's leading almond growers…**Yara International (YARIY)**, a Norwegian fertilizer giant…and Singapore-based **Olam Group (OLGPF)**, offering exposure to cocoa, coffee, spices, edible oils, and rice.

All of these companies, and many others all over the globe, are available to buy in the U.S. through brokerage firms such as Fidelity, Schwab, E-Trade, and Interactive Brokers as American Depository Receipts.

ADRs, as they're called, are foreign stocks that trade on the New York Stock Exchange, Nasdaq, and Over-The-Counter Market (known as the OTC). ADRs can have a few quirks that you need to be familiar with.

First, each ADR does not always represent one share of a company's stock back in its home market. The most common reason is that share-price conventions are not universal. In some overseas markets, a single share regularly trades for the equivalent of hundreds or thousands of dollars. While in other markets, a single share equates to just pennies or even fractions of a penny. So, to meet American investment norms, an ADR can sometimes represent 10 or even 100 underlying shares from the home country, or maybe just one-tenth of an underlying share.

Also be aware that while they are generally well-known companies—even blue chips—in their home market, these stocks are largely unknown in the U.S. and, as such, their shares can be illiquid and challenging to trade in any volume.

Still, ADRs remain an excellent way to gain exposure to farmland and crops that you can't find through U.S. investments options.

I particularly like **Yara** since it's a fertilizer play from a stable European economy and has a history of paying large dividends. There is a headwind facing fertilizer producers at present… namely the high price of natural gas due to the Russian invasion of Ukraine. (Natural gas is a key input in the production of fertilizer.) However, as a long-term investment, I believe Yara and other fertilizer makers are a strong play.

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5. Direct Ownership

Of course, if you want to play the role of gentleman-farmer, you can directly purchase farmland and then turn around and lease it out to real farmers who don't have the cash to buy their own farm.

There are farm-management companies who can facilitate this process by connecting you with farmers and monitoring land usage.

Which region you want to invest in depends on what crop you're interested in, the markets you want to serve, and the cost of the land you can afford, since land price varies depending on location, the crops it grows, the water rights it has access to, etc.

However, given escalating land values in the U.S., many of the best investment opportunities in terms of direct farmland ownership lie overseas.

That's why I traveled to Uruguay to investigate farmland.

Investing in overseas countries with significant arable land—think African countries, Brazil, and Argentina—can be a fraught business. Often there are restrictions on owning land or there are few legal protections for buyers.

Uruguay, by comparison, is a safe, welcoming country for overseas investors. In fact, it is the wealthiest country per capita in South America, according to the World Bank, and the most democratic, according to *The Economist*. And it ranks above the U.S. and France on the global Corruption Perception Index.

The South American nation also has low tax and tariff policies and it has a highly developed agricultural sector that funnels rice to the Middle East, beef (some of the world's best and most traceable from cow to plate) to Europe, and tons and tons of soy to China.

Despite its well-developed agriculture sector, land in Uruguay remains excellent value. All over the country, you can buy farmland from $1,500 to $2,000 an acre, which is much lower than what can be found in neighboring countries, and a fraction of the price in the U.S.

Moreover, all the land in Uruguay is rated nationally based on its soil quality and productivity through something called the CONEAT Index rating. This number is easily found and allows prospective farmland buyers to gauge multiple properties on an apples-to-apples basis.

The Future Is in the Land

On a recent trip to Croatia, I passed a steakhouse and stopped to look at the menu outside. There in big, bold letters was written, "100% Uruguayan Beef!"

I had to smile.

I've been on several Uruguayan cattle farms over the last 10 or 12 years. My friend, Sebastian, runs one of the country's leading farm-management companies. So, I was not shocked to see Uruguayan beef in Croatia, given that Uruguay is one of the only countries in the world that can track the steak on your plate back to the exact cow on a particular ranch. It's what makes Uruguayan beef in such high demand globally.

It also speaks to the idea that high-quality food is increasingly in demand all around the world as a new middle class springs up in Asia, South America, Eastern and Southern Europe, Africa, the Middle East, and India.

That demand—really demand for higher-quality calories—is pushing up prices for all kinds of crops. Owning farmland puts you right at the nexus of that.

Prices, of course, will ebb and flow, as prices do in all markets. But over time, crop prices are going to rise because of the commodity super-cycle and the tailwind of demographics.

And that means farmland valuations are heading in one direction: up.

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