DOWN ON THE FARM

WALL STREET: AMERICA's NEW FARMER

Frequently Asked Questions

"Farmland is the foundational resource in our economy, who owns the farmland determines how it is used or mis-used. When land is a commodity owned by absentee interests, it produces commodities for export. In contrast, land held locally, operated by family members and neighbors with connection to place, you get better land stewardship, more job creation, services and diversification on the landscape. These are the basis of food sovereignty, and democracy itself.

The new generation entering agriculture has a focus on regional and sustainable production of vegetables, fruits, pasture-based meats and dairy. These are the ingredients for a healthy diet, clean water, food security and resilience to climate change and increasing energy costs. These farmers need farmland at a price compatible with farming, they cannot compete with speculators and price pressure for leisure and petroleum development.

Many countries around the world understand the crucial important of protecting farmland for farming, maintaining food security and ensuring access for next generation farmers. As a nation, as well as on a community basis, we must concede that putting farmland in the hands of sustainable farmers is in all our best interests. We must invest the time and capital to ensure their success."

- Severine von Tscharner Fleming, Founder, The Agrarian Trust

Isn't the global land rush only impacting developing countries?

The global rush for land is precisely that -- global. While a lot of media coverage has reported on the estimated 500 million acres worth of land investments in developing countries between 2000 and 2011, American farmland also faces unprecedented interest from institutional investors. Private equity firms, hedge funds, university endowments, and pension funds are part of an increasingly crowded field of financial sector players vying for a stake in US farmland.

Over the next 20 years, 400 million acres, or nearly half of all US farmland, is set to change hands as the current generation retires. With an estimated $10 billion in capital already looking for access to US farmland, institutional investors openly hope to expand their holdings as this retirement bulge takes place.

Which global and national factors are driving the land rush in the US?

On the global scale, investors view agriculture as a stable investment with solid returns. Especially in the aftermath of the international financial crisis, farmland is seen as a safe place to stash capital until more profitable investments emerge. Additionally, interest in farmland has been steadily mounting due to ecological, economic, and political factors. As pressures on global arable land mount because of climate change, urbanization and pollution-induced land degradation, investors believe that acquiring fertile land with secure water rights today will provide profits in the face of potential scarcity tomorrow. Other long-term trends, such as rising meat consumption and biofuel production, increase the need for farmland and thereby add value to their investments.

At the national level, US farmland is favorable for agricultural investment because of its physical and regulatory infrastructure. Fertile soils, advanced industrial farm technology, strong private property rights, federally subsidized crop insurance, and liberal genetically modified (GM) crop regulations make US farmland an attractive venture for investors .

What impedes young and beginning farmers access to land in the US?

According to the United States Department of Agriculture (USDA), the impediments confronting young and beginning farmers have never been higher: they earn less money, depend more on off- farm income, receive fewer subsidies, and face far greater obstacles to accessing credit. Seventy-eight percent of respondents to a National Young Farmers Coalition survey found that lack of capital was the largest constraint to farming. The challenges beginning farmers face with lower incomes and difficulty in accessing credit, coupled with booming farmland prices, make land ownership an onerous path.

What is the connection between the rush for US farmland and the goal of US energy security?

Federal support for biofuel production, which included $1.3 billion worth of subsidies in 2012 alone, helps to bolster land values and crop prices, further encouraging investors to pursue farmland. The Environmental Protection Agency (EPA) reports that by 2020, biofuel-related demand for corn and soy will increase farm income by an estimated $13 billion.

Besides biofuel, investment managers are constantly seeking "higher and better" uses for their farm properties. This includes using farm investments for renewable energy generation, since flat, open terrain is often ideal for wind turbines and solar panels. This trend is encouraged by states like California passing renewable energy mandates, as well as by federal support for renewable energy projects in the form of tax credits and loan guarantees.

Another avenue is for farm investors to capitalize on the booming growth in US oil and gas production. New technologies like hydraulic fracturing ("fracking") are opening energy reserves previously thought to be inaccessible, making the farmland that sits atop these resources a flashpoint in a new struggle that pits food security against energy security. As institutional ownership of agricultural land grows, the possibility of these investors embracing the new energy boom grows as well. Early evidence suggests that this is already the case. One farm owned by a pension fund has been leased for oil and gas extraction in Weld County, Colorado, arguably the most heavily fracked single county in the entire US.

Are today's farmland investors simply speculators?

According to a recent survey of over 40 investors, the majority of them see capital gains—the increase in an asset's value that is only realized upon re-sale—as the main source of profits from their farm investments. This suggests that "flipping" farm properties later is more important than returns from rental payments or crop sales today. Unfortunately, this kind of behavior can put an upward pressure on farm prices, making it even more difficult for young and beginning farmers to access land.

One prominent example of speculation is Wexford capital, a Connecticut-based hedge fund. In 2007 and 2008 it invested $95 million is US farmland. Later it boasted that it would "… build the Wal Mart farming operation of the world." In 2012, when it announced that it was liquidating its entire farmland portfolio, it was set to pocket a cool $64 million in profits.

There are other examples of investors exploiting specific opportunities by selling individual farm properties from their portfolios, often netting millions in the transactions.

Has the US farm economy entered a bubble?

The investors leading the new US land rush certainly don't think so. Many maintain that rising farm values are a function of rising farm incomes, and that the fundamentals behind the US farm boom, such as growing demand for biofuel and changing global diets, are sound.

Still, there are a number of factors that could deflate the farm economy, and these sobering possibilities must be considered.

For instance, a major driver of rising land prices is biofuel--or more accurately, the government programs that mandate and subsidize biofuel production. But in the US and elsewhere, these programs may become hard to justify in the face of so-called "unconventional" energy sources like tar sands oil and shale gas. Although these new sources of fossil fuel are more expensive than conventional ones, they are still cheaper and more practical than most current sources of biofuel. If policy makers withdraw support from biofuel, or if investors decide that biofuels cannot compete over the long-term with unconventionals, then land prices could tumble.

As evinced by the record-breaking drought in California that has already cost farm businesses billions, another threat to the farm bubble is global climate change. A recent study from Oxford University projects that droughts, floods, and other extreme weather events related to climate change could wipe out a devastating $8 trillion worth of farm equity around the globe in a single year. Although this would be a disaster first and foremost for farmers and food supplies, the report also claims that ripples could spread to pensions and other investors who have embraced farmland to escape traditional stock markets.

Why do most of your case studies focus on California?

California is easily the most important agricultural economy in the US. In 2012 its farm sector boasted the highest cash receipts in US at $44.7 billion, leaving Iowa a distant second at $31.9 billion. It provides the US with nearly half of its fruits and vegetables and leads the country in specialty crops like wine grapes, almonds, and pistachios that are vital to the increasingly globalized trade of agricultural goods.

California is also our home. In exploring the local effects of the global land rush, it seemed like the best place to start.

Exactly how much farmland do institutional investors hold across the US?

It's very difficult to tell, but a number of estimates help to provide a general sense. In 2011, one industry leader estimated that institutional investors held between $3 and $5 billion worth of US farmland, and that that accounted for roughly one percent of total US farmland. But if there is indeed $10 billion in institutional capital searching for farm investments in the US, then that number must be in the process of rising significantly.

A trade group, the National Council of Real Estate Investment Fiduciaries (NCREIF), holds a database that tracks the profitability of farm properties owned by participating members. Its latest report covers 680,354.80 gross acres owned predominantly by pension funds. But because NCREIF only tracks participating members, it does not reflect the entire universe of institutional ownership, which could be double or even triple its size.

Is outsourcing of farm management by institutional investors a threat?

Institutional investors tend to outsource the actual business of farming to tenants and professional farm managers. This can create a diluted chain of responsibility that facilitates illegal business practices and poses a threat to safety and labor rights. In one prominent case, the Hancock Agricultural Investment Group (HAIG) outsourced the management of three apple properties in Yakima County, Washington to a company called Farmland Management Services, which then signed a sub-lease with a third company called NW Management and Realty Services. In 2012, when over 650 farm workers began a class action lawsuit over egregious labor violations, it became clear that as farm management becomes dispersed over multiple operations, adherence to legal business, labor, and safety practices can quickly disintegrate. This raises serious concerns in terms of responsibility and accountability for the farm owners, and constitutes a major shift from the traditional form of land ownership by farmers who actually farm the land.

What are some of the push backs to the Wall Street take over of the US farmland?

The growing movement for food justice and food security is giving way to a wide variety of creative strategies. There is undeniably a generation of young farmers eager to return to the land: the problem is access, not enthusiasm. This growing force is pushing for policy structures to be revised, to foster intergenerational link between farmers and ensure access to farmland.

Some of these movements include farm linking programs, such as California FarmLink that began in 1999. This program supports beginning and socially disadvantaged farmers through helping them secure land and capital. Emerging farmers make use of the FarmLink database to connect with farmers looking to sell their land as well as participate in their micro-lending services that provide capital injections for equipment or land improvement.

Another movement is the rise of alternative financing that helps farmers secure capital from non-traditional sources as access to credit tightens in direct loan services. Slow Money, Kickstarter and IndieGoGo are examples of these new platforms.

Agrarian Trust founded in 2012 is a national network that is working to spread innovative models of land access, transition, and financing to help beginning farmers find land and farm it sustainably. A major part of the initiative is regional training programs that help new farmers learn about topics such as transaction law, lease negotiation and alternative community financing.