Is Your Pension Fund Killing the Family Farm? March 2013

As the average age of the U.S. farmer reaches 55 years, a new crop of farmland buyers are stepping in to take over American farmland: investors. In recent years, non-farmer investors, such as pension funds, investment banks, and private equity firms, have become aggressive buyers in the farmland market. Dubbing farmland the hottest new "asset class," investors are quickly building a toolbox of "investment vehicles" to allow wealthy clients to profit off of rising land values, land rents, and commodity prices. As investors infiltrate the farmland market, they drive up the price of farmland and outbid family farmers, ultimately undermining sustainable agricultural and preventing the transfer of land to the next generation.

Tipping Point for Family Farmers

Across the country, family farmers face historically high farmland values, lack of access to markets, volatile commodity prices, and an increasingly complex maze of contracts and processing regulations they must follow. Amid drought conditions in 2012, land rents continued to soar, increasing by an average of 16 percent in Illinois, 19 percent in Kansas, and 12 percent in Florida from 2011 levels, according to the USDA's National Agriculture Statistics Service. As the average U.S. farmer ages toward retirement, many family operations lack support to successfully transition their land to the next generation. Despite tireless work, many family farm operations are on the brink of collapse and face imminent land grabs.

Seeking to capitalize on these conditions, investors are voraciously entering the farmland market. Since the housing crash of 2008, many large investment firms, pension funds, and banks have excess capital and few appealing markets in which to invest. Many of these investors are looking to farmland as the solution, creating a dramatic upswing in new, wealthy buyers. Farmers National Company (FNC), which manages over 5,000 farms across the central U.S. and brokers farmland sales, noted that in 2012 investors were responsible for 25 to 30 percent of their total sales.

Investors may plant high-return, resource-intensive commodity crops, such as corn and soybean, to take advantage of high (yet volatile) grain prices and increasing global demand for meat and ethanol. Other investors seek returns through the extraction of minerals, water, oil, coal, or natural gas from hydraulic fracturing, or "fracking."

Farmers buy volatile commodity inputs; make a myriad of field-level decisions ranging from the type of crop and the type of seed variety to grow, when to plant and when to harvest; and then sell a volatile commodity. The cropland investor simply collects rent.

-- AEW Capital Management

This orchestrated takeover of farmland greatly undermines the ability of family farmers to retain their land, resources, and autonomy. It also spells environmental disaster as investors push the land's limits of productivity to ensure high rates of return when it could otherwise be retained as pasture or conservation acres. FNC describes increasing prices on lower quality units of land, indicating that buyers are attracted to better returns on poorer quality land, yet fail to see the long-term impacts.

NFFC
NATIONAL FAMILY FARM COALITION

Pension Funds Buying the Family Farm

One example of the heavy hitters participating in farmland investing is the pension fund for university and non-profit employees: TIAA-CREF. In 2012, TIAA-CREF founded a private investment company called Global Agriculture, LLC with two Canadian institutional investors. The $2 billion company is primarily investing in farmland grain-exporting countries, including the U.S., Australia, and Brazil, demonstrating a reliance on lucrative commodity crops. By current accounts, TIAA-CREF owns around 300 farms in the U.S. and equally as many globally. Just this month, a $5 million contribution to the University of Illinois purchased the TIAA-CREF Center for Farmland Research, which will produce data on grain-producing regions to attract more investors.

The Swedish pension fund Adveq is following suit by joining forces with other pensions to enter the farmland market. Concerned about drawing claims of human rights violations and the volatility of commodity prices, these partnerships allow pensions to avoid singular responsibility for any potential backlash.

Family Farmers Lose Control, Rights

The sad result of these arrangements is that many farmers that have weathered the trials of farming across multiple generations lose access to their family land and their ability to farm. While details of the contracts between investors and farmers vary, many investment companies outline arrangements based on triple net lease agreements. Through this type of lease agreement, investors use farmers as a shield for any potential risks. As the cost of land rents and inputs rise dramatically – in many states, land rents have doubled in the past year alone – the ability for farmers to make a profit becomes nearly impossible, creating a crushing cycle of debt.

The Winners and Losers of Triple Net Leases

Farmer Pays:

Land rent
Property taxes
Insurance
Maintenance/repair costs
Utilities
Farm input costs (i.e., fertilizer, feed, etc.)
Machinery

Investor Pays:

Mortgage

Investor Receives:

Percentage of net income from crops
Crop insurance payouts
Income from land appreciation
Tax shield if paying interest on debt

Farmer Receives:

Percentage of net income from crops
Access to land

The impact of this turnover of land from family farmers to investors represents not only a cultural crisis in the U.S., but also a political one. Family farmers need support from government that will prevent further monopolization of farmland and encourage growth in local and regional markets. These interventions include: reinstating a farmer-owned grain reserve system; funding new and beginning farmer programs; options for better access to credit; and reigning in excessive commodity speculation.

Help Stop Land and Resource Grabs:

Contribute to NFFC's new Farmland Monitor, a farmer- and fisher-powered website where anyone can post information about non-farmer investment in US farmland, fisheries, and resources. If you have knowledge regarding any of these transactions, please visit **www.nffc.net** for more information.